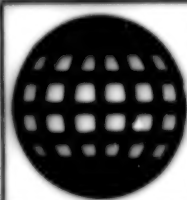


JPRS-EER-92-036  
25 MARCH 1992



FOREIGN  
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INFORMATION  
SERVICE

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# ***JPRS Report***

## **East Europe**

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# East Europe

JPRS-EER-92-036

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25 March 1992

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**Democratic Slate for Supplemental Assembly  
Seats**

92P20194A Tirana RILINDJA DEMOKRATIKE  
in Albanian 11 Mar 92 p 1

[Unattributed article: "Multimember List of Democratic  
Party Candidates for Supplemental Seats in People's  
Assembly"]

[Text] 1. Sali Ram Berisha, 2. Eduard Arif Selami, 3.  
Azem Shpend Hajdari, 4. Arben Fahri Imami, 5.  
Aleksander Gabriel Meksi, 6. Genc Pellumb Rruli, 7.  
Rexhep Sali Uka, 8. Blerim Naim Cela, 9. Tomor Hasan  
Dosti, 10. Leka Ismet Toto, 11. Franko Gjon Kroqi, 12.  
Tritan Masar Shehu, 13. Perikli Koias Teta, 14. Mitro  
Pilo Cela, 15. Hajri Hysen Kruja, 16. Dhimister Pano  
Anagnosti, 17. Aferdita Nazif Zeri, 18. Liri Asllan Deliu,  
19. Lindita Ylli Prifti, 20. Arben Ali Demeti, 21. Prec  
Gjon Zogaj, 22. Shahin Halit Kadare, 23. Mira

Kostandin Kauri, 24. Rushen Mahmut Golemi, 25.  
Arben Ramiz Lika, 26. Napolon Dhimister Roshi, 27.  
Skender Ramazan Dika, 28. Dalip Riza Ramalli, 29.  
Ismet Xhavit Ferizaj, 30. Esat Ismail Coku, 31. Ali  
Adem Sula, 32. Mehdi Sait Shabani, 33. Tonin Mark  
Ujka, 34. Baruhyl Mustafa Balteza, 35. Pellumb Xhe-  
vahir Kulla, 36. Murat Rexhep [Mannasa?], 37. Avenir  
Osman Kika, 38. Hysen Bajram Osmani, 39. Rexhep  
Mustafa Karapici, 40. Saimir Fadil Repishti, 41. Petraq  
Arqile Curri, 42. Reshat Mahmut Kripa, 43. Sotirag  
Jorgo Hroni, 44. Xhovalin Zef Kolombi, 45. Vaso Koco  
Liapa, 46. Lutfi Ibrahim Bajrami, 47. Filip Nasho Taco,  
48. Petrika Perikli Minga, 49. Tefta Vladimiri Shalili, 50.  
Vasil Jani Gjika, 51. Agi Sotir Fundo, 42. Koco  
Kostandin Kote, 53. Haki Ismail Mustafa, 54. Nazmi  
Qamil Hoxha.

Chairman,  
Prof. Dr. Sali Berisha

**Black Sea Convention To Be Signed in April**

4U2403105992 Sofia DUMA in Bulgarian 20 Mar 92  
p 4

[Report by Lyubomir Rozenshtayn: "Convention on Fate of Black Sea To Be Signed"]

[Text] The text of the Convention on Joint Action To Preserve the Black Sea will be signed in Bucharest on 21-22 April by six states. Ukraine, Bulgaria, Georgia, Romania, Russia, and Turkey will sign this international treaty. This was decided at the last working session, after prolonged diplomatic difficulties related to the disintegration of the former USSR. The convention will provide for each participating state to assume the responsibility and obligation to participate in joint work to study, preserve, and restore the environment in the region.

Bulgaria, Romania, and Turkey expressed readiness to sign the convention last year. However, after the text was coordinated with Moscow and experts from the other republics, it remained unclear whether Georgia, Ukraine, and Russia would have to adopt the document separately.

Moldova, Armenia, Azerbaijan, Greece, and Yugoslavia, as well as many international organizations, were invited to participate in the convention as observers.

The convention will contain two sections. The first is organizational. It sets down the obligation of every Black Sea state to observe international norms and requirements, preserve its shores, and participate in financing the joint activity.

The second section deals with the program to carry out research into all scientific aspects of the Black Sea. At the last Bucharest session on the convention, it was agreed that the institutes on oceanology in Varna and Constanta will be the leading institutes in this area.

A new chairman of the convention will be elected every year. The first chairman will be a Bulgarian. This was agreed at the session. The convention will be based in Istanbul. The financial contribution of each state will be determined in accordance with the length of its coastline. The convention is to begin work in September. By then it must be ratified by at least four participating states.

By then, each state must prepare its own national plan and begin its implementation. The World Bank and other world and European finance and ecological funds and organizations will directly assist ecological projects in the region, including the so-called action plan of the convention. It is thus expected that the signing of the convention will become the key to resolving the complex ecological problems of the Black Sea.

### **SDL Leaders on Dubcek's Decision To Join SDSS**

AL 2203204992 Bratislava PRAVDA in Slovak  
18 Mar 92 p 2

[Report signed "(ao)" "Apropos Its Authority"]

[Text] The press briefing of the Party of the Democratic Left [SDL] was held shortly after its "regular political consultations" with Meciar. Party Chairman Weiss maintained that at the upcoming Slovak National Council session SDL deputies will insist on a secret ballot for the recall of Minister Ivan Miklos. According to the SDL, it is unnecessary to draft an amendment to the law on abortion, but it is necessary to draft a wide ranging population law. The birth rate should be regulated on the basis of a couple's voluntary decision. In reply to a question from PRAVDA on whether, in connection with Dubcek's visit to the Castle on Friday [13 March], the decision on the nonconclusion of a coalition between the SDL and the Social Democratic Party of Slovakia [SDSS] was made in Prague, Weiss admitted that the recent statements made by representatives from Czechoslovak Social Democracy prove that they applied some pressure. "Our party," said SDL First Deputy Chairman Kanis, "established the authority on which it bases its election chances during the two years of its existence. After all, we were formulating policy when Mr. Dubcek was in the Public Against Violence Movement and when he was flirting with the Movement For a Democratic Slovakia, and we will formulate policy when he is part of Social Democracy. This does not alter our aspirations of integrating ourselves in the international left wing."

### **Liberal Social Union Elects Chairman, Deputy**

AL 2003090692 Prague HOSPODARSKE NOVINY  
in Czech 18 Mar 92 p 2

[CSTK report under the rubric "Parties and Movements"]

[Text] The Liberal Social Union (LSU) has been registered as a political movement in accordance with the law on political parties. Journalists were informed at yesterday's news conference in Prague that Agrarian Party Chairman F. Trnka has been elected LSU chairman. Czechoslovak Socialist Party Chairman L. Dvorak and Green Party Chairman A. Mucha were elected deputy chairmen. F. Melich, a nonparty member, was also elected deputy chairman. The LSU proposes that a constitutional law be adopted during this electoral period on whose basis the president will be elected following the appointment of a new government, and not immediately after the elections.

### **Reshuffling of Political Scene in Slovakia Viewed**

AL 2003095992 Prague MLADA FRONTA DNES  
in Czech 18 Mar 92 p 6

[Article by Ivo Slavik: "Card Shuffling"]

[Text] Alexander Dubcek's transfer from the Civic Democratic Union (ODU) to the Social Democratic Party in

Slovakia [SDSS] provided a new stimulus to the already quite dynamic pulse of the Slovak political scene. Alexander Dubcek, as a symbolic figure of the Prague Spring who commands great authority in Slovakia, could in this manner contribute to the formation of a moderate left wing with a positive political, economic, and constitutional program. This segment of the left wing could then, as one element of integration, help to find a solution to the dragging constitutional crisis. Some people might consider this claim to be an exaggeration—"What can a tiny party do?" This party, however, thanks to the figure of Alexander Dubcek, has a very realistic chance of taking away many votes from Meciar's Movement for a Democratic Slovakia (HZDS) and Weiss's Party of Democratic Left. Doubtless, many of the undecided will also vote for this party. The SDSS certainly can become a political power to be reckoned with at least in the Slovak National Council.

There are shifts, however, also on the right of the center. The most significant of these is the transfer of the Slovak National Council Chairman Frantisek Miklosko from the ODU to the Christian Democratic Movement [KDH]. This man set two conditions before he actually transferred. They were the nationalist faction's leaving the KDH and the formation of a coalition between the ODU and the KDH. These two conditions are a good basis for future constitutional talks—this time without any admixture of nationalizing radicalism.

Transfers in the opposite direction are also taking place. The Federal Communications Minister Emil Ehrenberger no longer represents the KDH in the government, but the ODU. Other KDH deputies in the Federal Assembly are allegedly considering a similar step.

A segment of Slovak voters—the Christian-oriented sympathizers with the economic reform—will presumably be attracted by the formation of a Christian faction that was initiated within the ODU by Federal Interior Minister Jan Langos.

It seems that not even the HZDS, built on the strong leaver principle, will be safe from transfers. It is conceivable that just as Mr. Dubcek was certainly influenced in his decision by the newly revealed facts about Vladimir Meciar, so will other HZDS personalities. There are rumors of conflicts between HZDS Chairman Vladimir Meciar and the movement deputy chairmen Milan Knazko and Michal Kovac. The position of HZDS Council Chairman Rudolf Filkus is unclear right now, after his emphasizing at the HZDS briefing last week that he favors neither the disintegration of the CSFR nor an independent Slovak state. His statement is a proof of the continuing internal conflict that he is struggling against, as the majority in the movement is aiming toward a confederation or even an independent state. Hence, Dubcek's transfer could be a signal for him, too.

Thus, it seems that the electoral preferences (currently in favor of HZDS) can still undergo tremendous changes before the elections. The greatest surprises might be brought about by this weekend's HZDS assembly in Zilina, and the Slovak National Council session next week. It will probably provide the setting for the Slovak National Party's last attempt at initiating a declaration of Slovak sovereignty. We have to wait for the outcome. The cards are now being shuffled.

### Productivity Analysis, Forecast to 1995

92CH0346A Prague STATISTIKA in Czech Nov 91  
pp 473-493

[Article by Ivan Suján, of the Federal Statistical Office, Dusan Strauch, of the Federal Resources Administration, and Milota Sujánová, of the Bratislava Institute for Research of Socioeconomics and Management Computerization: "Prognostic Analysis of the Development of Branch Structure and the Productivity of Labor in Czechoslovak Industry for the Period Through 1995"]

[Text]

### Introduction

This study is aimed at evaluating the development of the structure of Czechoslovak industry during the years 1988-90 and focuses particularly on the variations in the prognosis of further development of the structure for the period 1991-95. It ties in with our previous work in this area, particularly that listed in (1, 2, 6, 7). Methodological aspects are described in exhaustive fashion particularly in (7), whereas the sources and methods of constructing statistical data can be found, for example, in (6).

We utilize the product of our previous work as a basic tool for forecasting analysis, work which concentrates information on the structural development of industry in 10 economically developed countries (five large economies—the United States, Japan, United Germany, France, Italy—and five small economies—Denmark, Finland, Austria, Sweden, and Belgium). This is an econometric model of production structure and branch labor productivity, based on data describing actual developments in these countries during 1970-85 and a subsequent version for the years 1970-87.

By combining the parameters of this model, where the fundamental explanatory factors for the development of production structure and branch productivity are the economic level of the country (the created per capita gross domestic product) and the economic dimensions of the country (total created gross domestic product) and data regarding the industries of the CSFR in the appropriate breakdown, data were obtained pertaining to the value of the so-called hypothetical structure of production in Czechoslovak industry, as well as data on the hypothetical value of branch productivity.<sup>1</sup> Derivatively, it is also possible to use this method to analyze the structure of employment in industry. In the present

work, we shall no longer repeat the theoretical bases and specific image of the above-mentioned econometric model (we refer the reader to our previous work (1, 7)).

In the first portion of the work, we shall briefly evaluate the development of the actual structure of Czechoslovak industrial production and branch productivity in recent years and we shall do so in relationship to the most recent hypothetical structures (the "produced model") and with respect to productivities computed for the terminal period of the model quantification.

In the second portion of the work, we present the scenarios of individual prognostic variations (1-4), particularly insofar as they involve anticipations which have been transformed into specific values of input data for the model forecast ranging through the year 1995. These scenarios are then followed by specific results of prognostic computations, their evaluation and an economic interpretation in part three.

As early as the introduction, it is necessary to draw attention to the considerable degree to which the listed prognostic calculations are contingent upon a certain schematization and perhaps even the debatability of input data, as well as upon the limited possibilities inherent in the model used.

Some prerequisites which originally (during the first half of 1991, when the appropriate computations were accomplished) appeared pessimistic can appear today to be overly optimistic; in some cases, the reverse is true. The actual development of economic magnitudes is, of course, influenced by some unpredicted (and unpredictable) economic and political changes. Therefore, the substantive results of the forecast should be perceived more as an orientational sketching out of possible directions of structural changes, dependent upon the variable development of internal and external factors which influence the development of the appropriate endogenous magnitudes. In the article, we place greater emphasis on the qualitative differentiation of input (and, thus, also output) data within the framework of the individual variations, than we do on the quantitative aspect, for example, the absolute accuracy of data on the decline in the gross domestic product in 1991 and in subsequent years. The essence, thus, consists of the differences in structural development among the individual variations.

### 1. Changes in the Structure of Production in Czechoslovak Industry and the Development of Branch Productivity for the Years 1987-90

The fundamental changes in the development of the Czechoslovak economy following November 1989 and the hasty current course of structural changes call for their analysis, utilizing actualized relevant data. For these reasons, we augmented the original data base used for the model (1979-87) by adding data for the period 1988-90.



The actualization of data regarding the structure and dynamics of industrial production in the CSFR, as well as data on the development of branch productivity on the basis of current Czechoslovak statistical data, is virtually 100-percent consistent with the data base of the International Energy Agency (IEA) and with other international parameters for data<sup>2</sup> for Czechoslovak industry (3, 8), which were used in constructing and quantifying the econometric model forming the fundamental instrument for the analyses and forecasts of the structure and productivity of industry appearing in our previous work. By working with these data, we solved the fundamental problem because foreign sources dealing with the structure of 20 industrial branches in accordance with the ISIC [International Standard Industrial Classification] terminate, for the time being, in 1987 which is, of course, inadequate for the current needs and the topicalness of the research work involved.

### 1.1. Structure of Production

In analyzing the production structure of Czechoslovak industry we will, primarily, be basing our analysis on the comparison of this development with 10 selected economically developed countries (EDC), which were listed in the introduction of this study.

If we take the average structure of industrial production in all 10 selected countries or in the five small countries as a standard, there is no doubt that developments in the CSFR after 1970 were not proceeding in line with the general tendencies found applicable to developed countries, particularly with respect to the following aspects:

- Until 1987, Czechoslovakia had not undertaken to dismiss any workers from industry and to accomplish an absolute reduction in employment.
- The quantities of minerals mined and engineering products manufactured were excessively high, whereas production in the food industry and energy production, production of gas and water, etc., was excessively low.

These differences were not being reduced, but, on the contrary, were intensifying.

Another usable standard was the hypothetical structure of production derived with the aid of a model for Czechoslovak industry on the basis of mechanisms which were quantified for developed countries, used in combination with data on the Czechoslovak economic level and its economic dimensions. From this viewpoint, the following differences are interesting (for the most part, they reflect results of direct comparisons with results achieved by the EDC's):

- Enormously high shares of engineering products, production of transportation media, and, primarily, the extraction of minerals.
- Excessively low shares of food industry products, electricity, gas, and water production, metalworking products, etc.

Structural developments of Czechoslovak industrial production in the years 1987-90 are compiled in Table 1 below.

Table 1  
Structure of Industrial Production by Branch  
(in percent)

Industrial Branch	Average for 5 Small EDC's (1987)	Hypothetical Structure for CSFR (1987)	Actual Structure for CSFR				
			1980	1987	1988	1989	1990
1. Extraction of minerals	1.5	1.1	7.30	6.30	6.02	5.58	5.28
2. Foodstuffs industry	13.0	13.8	7.93	7.15	7.16	7.98	8.23
3. Textile production	2.7	6.2	5.54	5.24	5.20	5.21	5.18
4. Clothing production	1.4	2.9	3.6	3.15	3.36	3.45	3.40
5. Production of hides	0.2	0.5	0.47	0.44	0.45	0.46	0.48
6. Production of footwear	1.1	1.1	1.51	2.9	1.34	1.38	1.35
7. Production of wood products	2.9	5	1.95	93	1.97	1.99	2.31
8. Production of furniture	2.4	3.2	1.08	0.2	1.04	1.10	1.15
9. Production of paper	5.6	3.4	1.97	2.07	2.17	2.31	2.27
10. Polygraphic industry	4.9	3.8	0.68	0.68	0.67	0.67	0.74
11. Chemical and rubber industry	11.9	12.6	1.09	10.77	11.13	11.22	11.62
12. Processing of nonmetallic materials	3.5	6.2	6.24	5.66	5.79	5.71	5.92
13. Metallurgical industry	4.0	7.5	10.48	9.23	9.23	9.28	9.82

Table 1  
Structure of Industrial Production by Branch  
(in percent) (Continued)

Industrial Branch	Average for 5 Small EDC's (1987)	Hypothetical Structure for CSFR (1987)	Actual Structure for CSFR				
			1980	1987	1988	1989	1990
14. Metalworking production	6.8	6.3	3.99	3.94	3.88	3.81	3.93
15. Engineering production	9.2	7.7	17.39	20.04	19.74	18.76	17.91
16. Production of electric machinery	7.4	6.4	4.30	6.30	6.55	6.96	6.49
17. Production of transport media	7.0	5.1	8.45	9.25	8.89	8.66	8.31
18. Production of instruments and facilities	1.2	0.8	0.47	0.46	0.46	0.49	0.52
19. Remaining processing industries	1.0	1.1	1.12	1.05	1.09	1.12	1.15
20. Production of electricity, gas, water	11.3	8.8	5.90	5.83	5.84	5.84	5.98

\* Structure reflecting the economic level and dimension of the CSFR, derived according to dependencies characteristic for small EDC's (the same holds true for productivity of labor shown in Table 2).

The data in this table indicate that as early as the period 1987-90, Czechoslovak industry was witnessing some structural changes in the direction of the general tendencies valid for the EDC's as well as in the direction of the appropriate hypothetical structure derived from these tendencies for the CSFR. This is particularly applicable to the mining of minerals, where the decline, as shown in Table 1, has been continuing from 1980. The following additional branches, which have been experiencing development in the direction of the general tendencies noted for developed countries of the world over the past three years are also noted in Table 1:

- The foodstuffs industry (its share increased from 7.15 to 8.23 percent).
- Wood products (growth from 1.93 to 2.31 percent).
- Paper production (growth from 2.07 to 2.27 percent).
- Chemical and rubber industry (growth from 10.77 to 11.62 percent, essentially a return to the original values of 1980, despite considerable declines in the imports of petroleum as one of the basic input raw materials).
- Engineering products<sup>1</sup> (in 1987, the share occupied by this industry culminated at an unprecedentedly high level of industrial production; by 1990, it had declined to 18 percent).
- Production of transport media (declined from 9.25 to 8.31 percent).

With respect to several other branches, developments have also been moving in the indicated direction, but not by such a clear method (production of furniture, production of electric machines, production of electricity, gas, and water).

The share of the metallurgy industry in Czechoslovak industry increased, against all tendencies in the external environment over the past three years (from 9.23 to 9.82 percent), where there is clearly some momentum and where export demand is decisive and where any more express suppression, which is desirable even from the environmental standpoint, has not occurred for the time being, particularly with respect to ferrous metallurgy.

In the course of 1990, as well as during the first half of 1991, the unfavorable trend which revealed the express price and nonprice uncompetitiveness of Czechoslovak production was already fully manifesting itself. This lack of competitiveness is growing proportionally with the degree to which input materials and raw materials are processed, so that sophisticated electronic products are the first to "go under" whereas primary metallurgical production, production of energy and other similar branches are expressly increasing their share in overall industrial production which is generally declining.

## 1.2. Labor Productivity and Employment

Table 2 lists development of branch labor productivity in Czechoslovak industry, in the same structure as that shown for Table 1, in comparison with the average for five small EDC's and the hypothetical productivity for the CSFR for 1987 (derived through the use of the econometric model). This productivity would correspond, all things being equal, to the economic level and dimension of a Czechoslovak economy. Data in Table 2 do not require more voluminous commentary; the fact that the level of productivity is falling behind that of the EDC's and the hypothetical productivity is quite clear. Moreover, the development of productivity for 1987-90 is very likely further burdened by the overvaluation of



data regarding industrial production because, to augment the data for 1989-90, Czechoslovak data on adjusted value-added output was used which, as criteria

indicator for the enterprise sphere, were already over-valued during the primary collection phase

**Table 2**  
**Productivity of Labor in Industry by Branch**  
(in thousands of S.U.S. per worker)

Industrial Branch	Average for 5 Small EDC's (1987)	Hypothetical Structure for CSFR (1987)	Actual Structure for CSFR				
			1980	1987	1988	1989	1990
1. Extraction of minerals	39.7	25.8	10.8	10.2	10.0	9.8	9.90
2. Foodstuffs industry	49.9	29.8	9.9	10.5	10.9	12.7	13.50
3. Textile production	26.4	18.1	6.5	7.7	8.0	9.2	9.20
4. Clothing production	17.1	13.4	3.3	4.1	4.3	4.8	4.90
5. Production of hides	25.8	19.5	4.7	5.1	5.6	6.0	6.60
6. Production of footwear	21.9	16.3	5.5	6.0	6.4	6.9	7.10
7. Production of wood products	40.6	6.2	7.7	9.5	10.2	10.9	13.30
8. Production of furniture	34.6	26.0	4.4	5.2	5.6	6.4	7.00
9. Production of paper	53.0	23.4	10.8	13.6	14.8	16.8	17.10
10. Polygraphic industry	40.4	24.9	5.5	7.3	7.6	8.1	9.20
11. Chemical and rubber industry	54.0	30.0	16.7	17.9	19.3	20.5	22.20
12. Processing of non-metallic materials	36.0	23.2	9.6	10.4	11.1	11.6	12.70
13. Metallurgical industry	37.3	27.7	14.3	14.8	15.5	14.4	15.9
14. Metalworking production	34.3	21.3	6.1	7.6	7.8	8.2	8.90
15. Engineering production	39.3	20.0	8.8	11.4	11.6	11.8	11.90
16. Production of electric machinery	38.4	18.6	7.4	11.6	12.5	13.9	13.70
17. Production of transport media	34.5	19.3	8.9	11.3	11.3	11.7	12.00
18. Production of instruments and facilities	36.0	13.9	7.6	7.6	7.9	9.0	10.10
19. Remaining processing industries	37.9	22.7	6.8	7.2	7.7	8.4	9.20
20. Production of electricity, gas, water	13.4	5.1	23.1	25.1	25.8	27.0	28.20
Industry Total	42.8	24.0	9.4	11.0	11.4	12.0	12.65

\* Same as Table 1

As far as overall employment in industry and its structure is concerned, it can be stated that as recently as the final years of the socialist economy tendencies observed in the EDC's in the mid-1970's began to manifest themselves—an absolute decline in employment and a rapid decline in some traditional branches, particularly in the extraction of minerals, in the textile industry, in branches producing on the basis of wood materials, in engineering branches, in the production of transport media, and to a lesser extent in virtually all other branches. These processes became significantly accelerated in the second half of 1990 and continue with full

intensity in 1991. Social reemployment during that period is thus gradually becoming open unemployment (for the first half of 1991, it stood at 3.8 percent with a possible rise to 8 to 10 percent by the end of the year (4.5)). As far as industry is concerned, the overall number of workers in 1980-89 stagnated; in 1990, it declined by 100,000 and an additional serious decline continues even during the course of 1991. The greatest decline in manpower can be observed (expressed in relative terms) in the textile and clothing industry, in the construction materials industry, in the electrotechnical and electronics industry, but even in basic engineering itself.

## 2. Scenarios for Individual Prognostic Variations From the Viewpoint of Input

A total of four prognostic variations have been worked out which came into being as a result of the combination of two significant aspects, one of which reflects the internal factors of macroeconomic development through the year 1995, whereas the second takes more external factors into account, exogenic factors, particularly the development of commercial relationships involving the USSR and the other former CEMA countries.

Internal factors can be cumulatively characterized either as a full or partial success of the radical economic reform or, still more specifically, as a result of its lesser or greater radicalness. These concepts conceal also some extraeconomic factors which are more political in character (for example, the speed and quality involved in the adoption of appropriate transformation laws by parliament, deadlines and the consistency with which they are realized in practice, etc.).

From these two viewpoints, we constructed four prognostic variations, the scenarios for which are based on the following prerequisites:

### Variation 1

a) For economic and political reasons, the purchase-capable demand from the USSR and from the other East European countries will remain at the same low level which was achieved during the second half of 1990 and, mainly, thus far into 1991. Under these conditions, then, the inadequate export opportunities act as a brake on the growth of Czechoslovak industrial production; its decline is also noted for the out years (even though the pace of decline is slowed and in 1995 is halted). The release of manpower from industry is continuing at a rapid pace as a result of a shortage of orders and the bankruptcy of many enterprises, particularly in those branches which used to produce primarily for the former CEMA market (textiles, clothing, engineering products, transport media, etc.).

b) The velocity of the economic reform is relatively low; social viewpoints predominate in the application of its individual steps; the process of privatization is stagnating; resolute and fundamental steps in this direction are lacking, or, seen from the standpoint of their urgency, are being accomplished at an excessively slow pace.

The prerequisites, transformed into the language of numbers, signify the following development (pace of growth in percent) in terms of input data for the economic model describing the structure of industrial production and branch productivity:

Year	Gross Domestic Product	Gross Domestic Product per Capita
1991	- 9.0	- 9.16
1992	- 3.5	- 3.62
1993	- 2.5	- 2.59
1994	- 1.0	- 1.18
1995	+ 2.0	+ 1.81

Following the steep decline in created gross domestic product for 1991, this variation anticipates a continuing decline even in the years 1992-94 (with slackening pace) and a reversal of this trend would then not occur until 1995. Variation 1, thus, anticipates that even given the dramatic decline in demand for Czechoslovak export products to former CEMA countries and as a result of the imperfect implementation (from the standpoint of velocity and effect) of the radical economic reforms, there exist internal resources which will lead to halting the decline in the efficiency of the Czechoslovak economy, albeit after a relatively longer period of time involving an additional three to four years involving the lowering of the overall output of the economy.

### Variation 2

a) The current situation involving the limited possibilities for exporting to former CEMA countries will improve somewhat, mainly as a result of positive changes in the internal economic and political situations in those countries. Accompanied by a more dynamic pace of exports, this would mean a significant impulse to jump-start production and to halting the layoffs in a number of branches of Czechoslovak industry, it would reduce the number of threatening bankruptcies, it would improve the sales situation for enterprises, it would improve solvency, etc. From the standpoint of structural development, however, this situation would mean a trend toward a certain amount of preservation of the existing industrial structure, because deliveries of traditional Czechoslovak suppliers to traditional markets would be renewed and basic structural changes would be delayed.

b) At the same time, this variation also presupposes (much like variation 1) a slower pace of economic reforms accompanied by predominating preferences for social viewpoints and a slow pace of privatization.

Following are the fundamental characteristics of input growth paces for variation 2:

Year	Gross Domestic Product	Gross Domestic Product per Capita
1991	- 7.0	- 7.16
1992	- 1.5	- 1.61
1993	- 1.0	- 0.60
1994	+ 1.0	+ 0.81
1995	+ 4.0	+ 3.82

Thus, the decline in 1991 would be less steep, although the period of total stagnation would be cut by one year (the turnaround of the trend would occur in 1994), but the full extent of the fundamental quality conversion of industrial production, which is essential to the continued favorable development of the economy, would not be fully realized.

#### Variation 3

a) Expectations regarding trade with former CEMA countries and their purchase-capable demand are the same as those in variation 2.

b) In contrast to the two previous variations, there is more rapid progress regarding the economic reform. This should bring about, on the one hand, a more rapid reorientation of exports toward developed markets (even though this would be connected with significant problems in the beginning in view of nonprice uncompetitiveness), but, on the other hand, there would be a short-term relatively deeper decline in the volume of industrial production and the gross domestic product, as a result of the specific limitation of unprofitable production processes. In view of the serious changes which would necessarily be brought about by a more rapid transition toward a market economy and an orientation toward developed markets in the area of quality and in the area of the technical level of production, this variation could already lead to halting the decline in industrial production as early as 1993 (4). Even the more intensive participation of foreign capital in the Czechoslovak economy could play a role here, although this factor could manifest itself only in the event the economic reforms show sufficiently rapid progress.

These considerations have led to the following anticipated developments with respect to growth pace for the period through 1995 (after taking into account both contradictory influences upon the pace of gross domestic product development):

Year	Gross Domestic Product	Gross Domestic Product per Capita
1991	-	-
1992	-	-
1993	-	-
1994	-	-
1995	-	-

The temporary deeper decline in the gross domestic product in 1991 and the significantly smaller decline in 1992 could be replaced as early as 1993 by a 2-percent growth rate with a rising tendency to growth even in the out years. In this variation, we anticipate that the most important relative structural and quality changes in industrial production will occur.

#### Variation 4

a) From the standpoint of demand by the East European countries, this is a variation which is analogous with variation 2—in other words, an optimistic expectation regarding the transitory nature of the current unfavorable status in this area, where the volume of Czechoslovak exports in many cases is not even one-half of that of 1990 and, particularly, in comparison with previous years.

b) This variation currently also reflects the impacts of the rapid progress of economic reform, as does variation 3.

Within the framework of this variation, both important factors (the demand for former CEMA countries as well as the progress of the reforms) are suitably balanced, a fact which not only leads to a rapid improvement in the health of the economy after the specific failure of 1991, but implicitly also leads to the long-term desirable transformation of Czechoslovak industry to convertible production.

From the standpoint of input magnitudes expressing the dynamics of the gross domestic product, variation 4 is characterized as follows:

Year	Gross Domestic Product	Gross Domestic Product per Capita
1991	-	9.55
1992	-	1.60
1993	-	4.42
1994	-	5.82
1995	-	7.19

It is clearly an optimistic variation. More rapid reform and improvements in the possibilities to export to East European countries should lead to the minimum amount of decline in industrial production in comparison with all other variations and, essentially, such decline should occur only in 1991 because the subsequent development of gross domestic production following the stagnation of 1992 would already mean that rapid growth would take place starting in 1993.

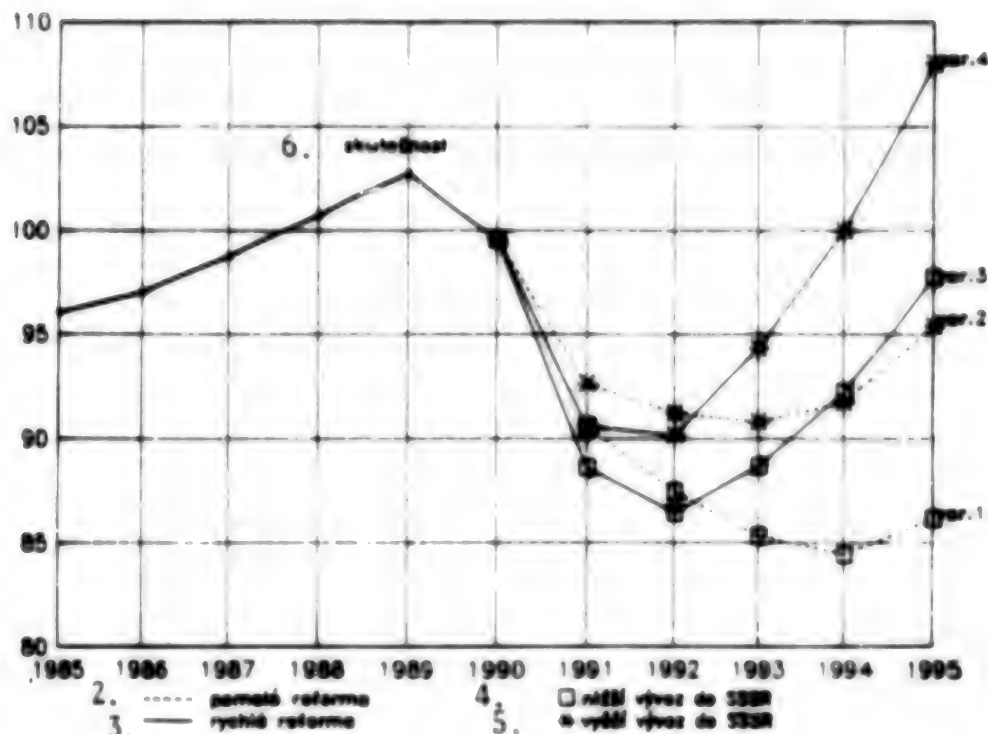
The trajectories of gross domestic product development for all four prognostic variations are cumulatively depicted in Figure 1.

#### Additional Input Parameters for All Variations

The applicability of the utilized econometric model consists in the fact that on the one hand it includes as inputs the aggregate development of the gross domestic product and the number of inhabitants<sup>3</sup> and, on the output side, the model transforms these data into forecasts of the structure of industrial production and branch productivity (and implicitly also branch structures of employment in industry).

GRAF 1

1. Hrubý domácí produkt ČSFR  
(mil USD, srovnatelné ceny 1980)



## Key:

1. Gross Domestic Product for the CSFR (billions of \$/US comparable prices 1980)
2. Slow reform
3. Rapid reform
4. Lower exports to the USSR
5. Higher exports to the USSR
6. Actual

The fact that the model is based on analogies involving structural developments in developed Western countries, an important role in its prognostic applications is played by parameters which connect developments in these countries with the CSFR, particularly the following:

- The share of industry in the creation of the gross domestic product.
- The extent to which the structure of Czechoslovak industrial production is approaching the tendencies in developed nations.
- The extent to which the level and structure of branch productivities of labor in Czechoslovak industry are approaching tendencies in those countries.

The first of these parameters is objectivized in character (it is actually an endogenous change of the utilized econometric model—see (1, 7)), whereas the other two

parameters are keyed in directly as input numerical values (in the various variations).

Thus, the computer prognoses of branch structure and labor productivity are a certain combination of the momentum represented by the development of the existing structure and the level of Czechoslovak industry and of hypothetical model values reflecting the laws valid for developed market economies.

The measure of adaptation of the structure of Czechoslovak industry in the processed set of variations is relatively lower in the case of a slower reform (variation 1). In 1995, the forecast based on the appropriate parameter shows 75 percent of momentum development and 25 percent of development according to trends in developed countries. In the event of a rapid reform (variation 3), this ratio in 1995 is 50:50 percent, which is an expression of a more rapid adaptation of the structure of Czechoslovak industry to market conditions. In both

variations, which anticipate higher exports to the USSR and to the other East European countries, the extent of structural adaptation is somewhat slower (in 1995, in variation 2 it is 15 percent and, given a more rapid reform, in variation 4 it is 40 percent).

Similarly, even the extent to which Czechoslovak labor productivity approaches the levels corresponding to market conditions is anticipated to be somewhat lower in variations 2 and 4, in which higher exports to the USSR could act to relatively lower the pressure upon productivity growth.

Other model parameters, which are common to all prognostic variations, express the analytically determined tendency shifts in derived rules applicable to the development of individual branches. It is anticipated that the tendency shift common to the entire set of EDC's, which have been incorporated in the model, will be preserved, however, it is also anticipated that the determined deviations from generally applicable interdependencies will be gradually attenuated.

Because prognostic trajectories should be based on the most recent known facts, the model values computed for 1990 were adjusted for their difference with actual values. In view of the fact that, in the predominant majority of cases (see particularly Table 1 in Part I 1), these deviations indicate a partial approach to the structure and productivity of industry in developed countries, they were reflected in the model forecasts for the entire period through 1995. An exception was the share of industry in the created gross domestic product, which was higher in 1990 (35.2 percent) compared to the model value (31.2 percent), a fact which is not in harmony with the trend existing in developed nations. Therefore, this deviation (4 percentage points) was gradually reduced in the model computations to a level of 1.6 percentage points in 1995.

In view of the currently expressed changes in the Czechoslovak economy, actual statistical information on the development of production and labor productivity by industrial branch for the first half of 1991 (5) was utilized by way of supporting information. Anticipating that, in the second half, this development will not undergo substantial changes, these data were utilized to accomplish an approximate rectification of the forecasts for 1991. Appropriate deviations were gradually reduced

in subsequent years to zero by 1995 because these are predominantly extraordinary influences which are temporary in nature.

On the other hand, some new specific data for individual branches was taken into account for the years 1992-95. This involves mostly the influence of the agreed-upon or anticipated important participation of foreign capital in some branches (the production of transport media—Volkswagen, the production of footwear—Bata, etc.). Furthermore, in variations 2 and 4, the share of those branches in which it is possible to anticipate that they would play a significant part in the anticipated higher exports of the USSR was appropriately adjusted.

All adjustments make it possible for the model forecasts to reflect relevantly accessible information on specific developments in individual branches under various expectations which modify the general interdependencies expressed by the fundamental parameters of the utilized model.

### 3. Variational Forecast of the Development of the Structure of Industrial Production and Labor Productivity in the CSFR Through the Year 1995

The actual course of transforming the Czechoslovak economy from one that is centrally planned to a market economy differs in some aspects from the course which was anticipated at the beginning of that process. This requires a reevaluation of the original expectations, even in the area of research, particularly those involving attempts to accomplish short-term and medium-term model analyses and forecasts. This is manifested in this study as well, a study which ties in with previous forecast experiments in 1990, which had a horizon through 1995, but which were being conducted in the absence of adequate knowledge regarding the actual character of the transformation process itself. Changes in the fundamental input were particularly radical—those involving the anticipated dynamics of the created gross domestic product for the period 1991-95. The present study makes this pace more realistic and divides it into four variations in accordance with the created scenarios, each of which reflects another type of development of external and internal conditions under which the Czechoslovak economy will be operating over the next five years.

#### 3.1. Forecast of Aggregate Indicators

Table 3 lists the beginning (1990) and terminal (1995) values of trajectories applicable to selected aggregate indicators, the first three of which represent inputs and the subsequent five represent outputs pertaining to the model utilized.



Table 3  
Forecast of Level of Selected Aggregate Indicators for the CSFR

Indicator	Actual Situation 1990	Forecast for 1995			
		Variation 1	Variation 2	Variation 3	Variation 4
Gross domestic product (billions of \$U.S.)	99.570	86.134	93.387	97.740	107.470
Number of inhabitants (in millions)	15.663	15.790	15.790	15.790	15.790
Gross domestic product per capita (thousands of \$U.S.)	6.357	5.455	6.041	6.190	6.818
Share of industry in creation of gross domestic product (percent)	33.180	30.330	31.380	31.090	32.110
Share of industrial employment relative to number of inhabitants (percent)	17.683	13.070	13.870	13.410	14.110
Industrial production (billions of \$U.S.)	33.031	26.138	29.928	30.183	34.675
Industrial employment (millions of persons)	2.770	2.064	2.190	2.118	2.228
Industrial labor productivity (thousands of \$U.S. per worker)	12.648	12.664	13.685	14.144	15.582

The course of the trajectories for the gross domestic product (at various paces of growth) in the individual variations through 1995 was already indicated in Part 2. Development of industrial production is experiencing a similar course, except that the pace of decline, for example, for 1991, is still a bit more rapid. However, Table 3 indicates that the share of industrial production in the formation of the gross domestic product is declining (a general decline of the share from 33.18 percent in 1990 to 30.35 percent in variation 1 or 32.11 percent in variation 4). The prognosis anticipates a dramatic decline even in the share of industrial employment per number of inhabitants. In comparison with five small EDC's, however, this still represents a relatively high share having to do with lower productivity of labor in Czechoslovak industry and with a traditionally higher share of industry in the Czechoslovak economy. The growing share of employment in the tertiary sector will become more apparent in the second half of the decade.

However, in none of the prognostic variations does the overall volume of industrial production in the CSFR through 1995 rise to the level of 1990,<sup>7</sup> except for variation 4, which has been designated above as being optimistic from the standpoint of gross domestic product dynamics, when it at least comes close. Nevertheless, we anticipate a significantly different quality of the product in 1990 and 1995 when we expect that the process of dismantling production processes which are unprofitable and show no promise will be completed.

Table 3 makes clear the dramatic decline in employment in industry which should result, in a relatively short time, in the elimination of social reemployment, which is estimated to be as high as 20 to 30 percent in 1990. In contrast to developments in the past, but fully in harmony with general economic laws, the variations showing a larger decline in production are accompanied by a relatively greater release of manpower from industry; however, each of the above two fundamental factors plays a role here—the domestic factor (the

progress of the reform) as well as the external factor (the possibility of exports to the USSR). The greater depth of reform processes listed in variation 1 means a greater decline in employment, given a comparable volume of production, when compared with variation 2, which preserves a greater share of the industrial branches producing for less demanding Eastern markets.

The dismantling of reemployment manifests itself positively within the framework of all prognostic variations in the accelerated pace (following a transient decline in 1991 and the course of adaptation processes) of labor productivity in industry in the CSFR. In this respect, variations 1 through 4 are arranged in ascending order according to the pace of labor productivity, with the productivity growth rates in variation 4 being quite high over the last two years (1994 and 1995): virtually in the double digits—which has, thus far, been the privilege only of the "Asian tigers." However, it is not possible to exclude, on an a priori basis (given extremely favorable fundamental and various accompanying conditions involved in the development of the Czechoslovak economy), even such an expressly dynamic development, utilizing the potential accumulated over previous years, which was not able to find full application in the unnatural system of a planned economy, on a short-term basis.<sup>8</sup>

The data in Table 3 tend to defer to a later time frame any considerations involving the process of having the Czechoslovak level of the gross domestic product approach the population ratio as well as the labor productivity in the industries of the most developed nations. In a transformed economy, accompanied by successful mastery of the privatization process and universal modernization of the production base as well as by the expected participation of foreign capital, these considerations will certainly be far more realistic than considerations of this topic dating to the period prior to November 1989, which were made on the basis of distorted statistical data. It is clear that there will be a



greater exacerbation of the existing state of obsolescence on a transient basis, although the outlook for a successful reform in the CSFR is now in accordance with many (even foreign) analyses (the most hopeful of all the former CEMA countries (with the exception of the GDR). These conflicts not only repel foreign capital from investing in Czechoslovakia, but, moreover, tend to slow down even the legislative steps and processes which are absolutely unavoidable with respect to the successful course of transforming the economy.

### 3.2. Prognosis of the Branch Structure of Production

In Part 1.2 of this study, we evaluated the development of the branch structure of production of Czechoslovak industry for the years 1987-90. We pointed out that even though the Czechoslovak structure is considerably different from the structures of comparable five small EDC's, as well as from our own hypothetical structure which is derived on the basis of general market laws applicable to a specific economic level as well as the economic dimensions of the CSFR, this last period has

seen some partial structural changes, which are similar to the trends noted over the last 10 to 15 years in developed nations.

Let us now examine how the subsequent development of a structure of Czechoslovak industry for the period 1991-95 fits in with this positive element within the framework of the individual prognostic variations. There is clearly no doubt that structural changes in this period must be extensive. However, it is difficult to predict more accurately as to which branches and to what extent they will impact more and where the impact will be less. From this standpoint, current developments are, for the present, not synonymous.

The basis for further analysis is contained in Table 4, which lists the actual share of all 20 branches in industrial production in the years 1985 and 1990 and their variational forecast for 1995. In addition, Figures 2-5 depict actual and forecast development of the share of four selected branches of industry over the whole period of 1985-95.

**Table 4**  
**Structure of Industrial Production by Branch**  
(in percent)

Branch	Actual		Forecast 1995			
	1985	1990	Variation 1	Variation 2	Variation 3	Variation 4
Extraction of minerals	6.54	5.26	4.72	4.77	4.10	3.93
Foodstuffs industry	7.17	6.22	6.04	6.22	6.58	6.74
Textile production	5.31	5.18	5.88	6.13	5.21	5.93
Clothing production	1.1	.40	.80	.94	.38	.23
Production of hides	1.43	.48	0.90	0.95	0.47	0.83
Production of footwear	.39	.15	.63	.66	.33	.36
Production of wood products	.94	2.31	2.15	2.07	2.77	2.09
Production of furniture	.00	.15	.61	.22	2.15	.64
Production of paper	2.06	2.27	2.79	3.17	3.4	3.6
Polygraphic industry	0.67	0.74	0.90	0.81	.41	.23
Chemical and rubber industry	11.36	11.62	11.70	11.96	12.13	12.48
Processing of nonmetallic materials	5.74	5.92	6.82	5.83	6.19	5.99
Metallurgical industry	5.79	5.82	6.76	6.97	6.84	6.83
Metalworking production	4.00	3.93	4.19	4.19	4.91	4.93
Engineering production	19.36	17.91	14.11	14.45	12.64	12.94
Production of electric machines	5.53	6.40	6.55	6.17	7.22	7.0
Production of transport media	9.10	8.31	9.31	9.33	8.82	8.78
Production of instruments and facilities	0.46	0.51	0.41	0.47	0.56	0.57
Remaining processing industries	1.07	1.15	1.0	1.0	1.1	1.18
Production of electricity, gas, water	5.90	6.98	6.97	6.58	6.9	7.05

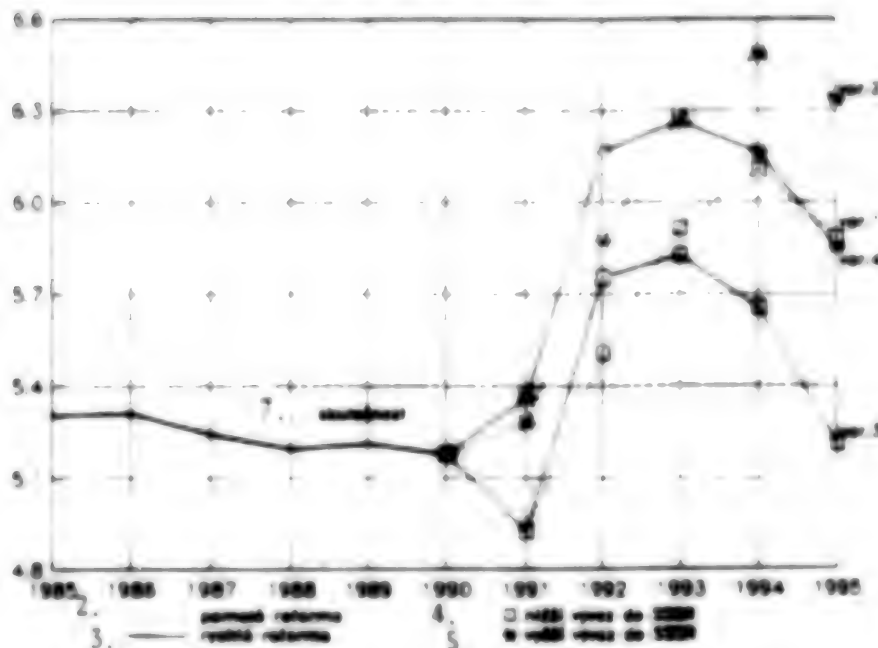
In computing the prognostic variations, actual developments pertaining to industrial production and employment in the first half of 1991 were taken into account, among others, particularly in view of the fact that these

were the first data originating in the period of a realistically ongoing transformation process.

Variation 1 is based on the expectation that the current low level of Soviet purchase-capable demand, and that of

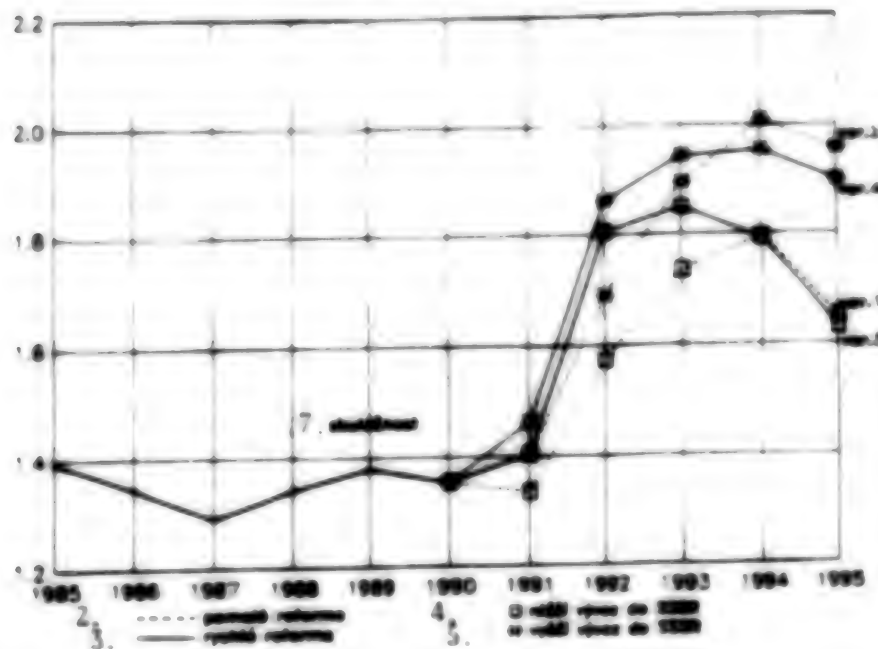
GRAF 2

1. Textilní výroba  
podíl na produkci průmyslu - %



GRAF 3

6. Výroba obuvi  
podíl na produkci průmyslu - %

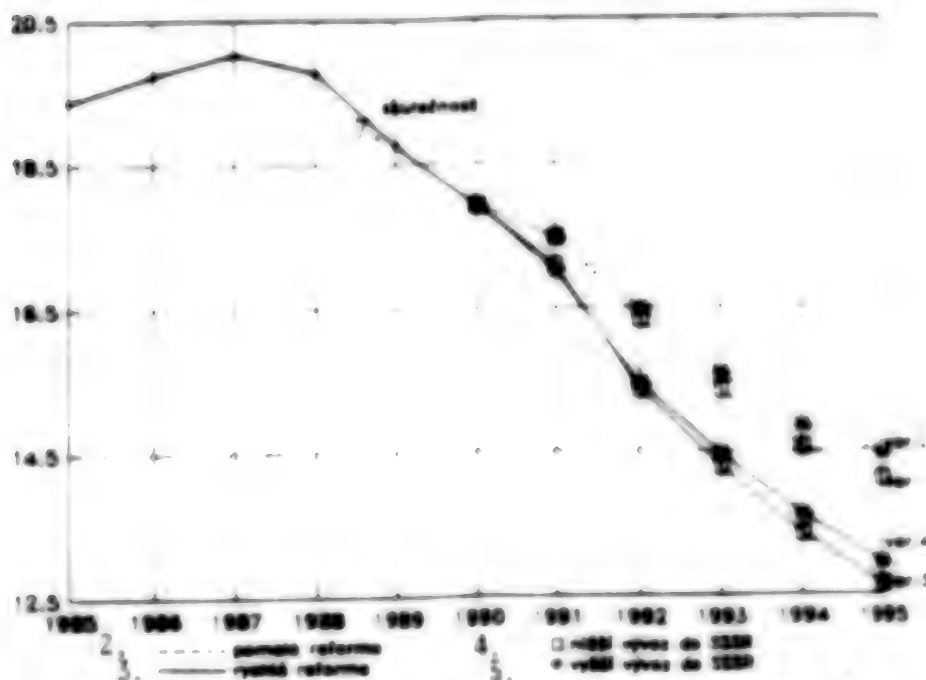


## Key:

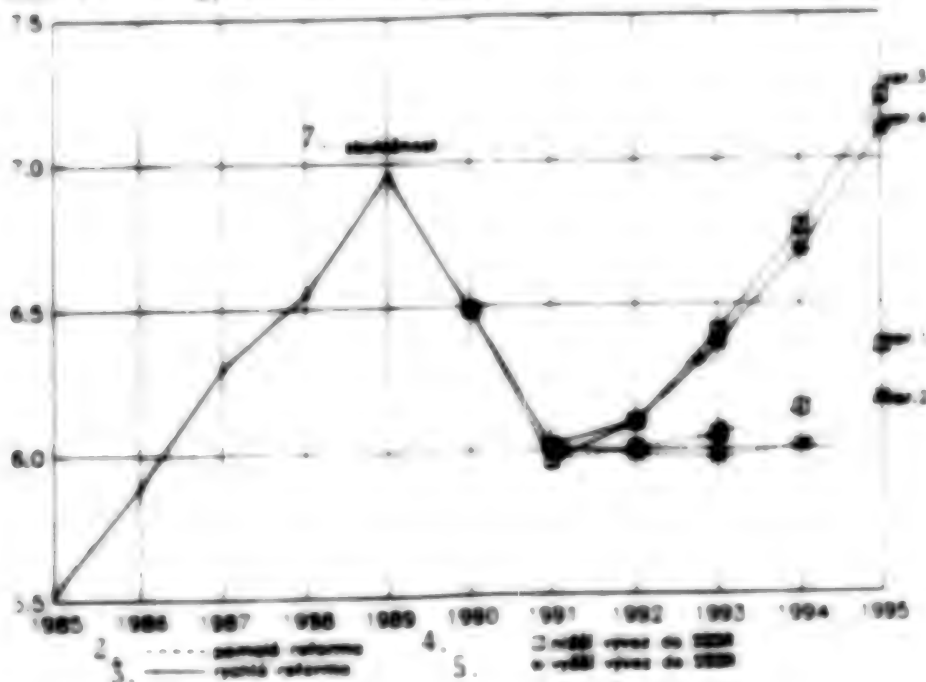
1. Textile Production (share in industrial production in percent)
2. Slow reform
3. Rapid reform
4. Lower exports to the USSR
5. Higher exports to the USSR
6. Production of Footwear (share in industrial production in percent)
7. Actual

Prognostická analýza vývoje odvětvové struktury a produktivity práce v průmyslu

GRAF 4 1. Strojnická výroba - podíl na produkci průmyslu v %



GRAF 5 6. Výroba elektrotechnických strojů - podíl na produkci průmyslu v %



Key

- 1 Engineering Production (share in industrial production in percent)
- 2 Slow reform
- 3 Rapid reform
- 4 Lower exports to the USSR
- 5 Higher exports to the USSR
- 6 Production of Electric Machinery (share in industrial production in percent)
- 7 Actual

the other former CEMA countries, for Czechoslovak industrial production will not change and that the intensity of the transformation process will not be sufficient and the implemented reforms will not be adequately consistent. From the standpoint of the structure of production, this would mean only a small decline in the share accounted for by the mineral extraction and metallurgy branch (following its transient rise in 1991), an insignificant increase in the share accounted for by the foodstuffs industry, following a transitory decline in 1991, as well as an insignificant rise in the share accounted for by the chemical industry. However, the share accounted for by the engineering industry would decline rapidly; as has already been stated, this involves the continuation of a process begun as early as 1987 when the share accounted for by basic engineering culminated at a level of more than 20 percent. The growing share accounted for by the production of transport media in this variation is tied in with an already concluded agreement regarding a joint venture, involving Skoda and Volkswagen, which should result in a gradual and significant increase in the production of automobiles, whereas the production of cargo trucks will clearly decline in the absence of any greater impetus on the demand side.

Variation 2 differs from variation 1 in that the textile and clothing branches account for a larger share, as does the production of footwear and shows a negligibly higher share of the engineering industry and the branch producing transport media, as a consequence of the anticipated "reopening" of the Soviet market and the market of other East European countries, at which the export of production from these branches was predominantly aimed. According to this variation, the share accounted for by mineral extraction and by the food industry is insignificantly higher in 1995, which is also true for the chemical industry and the rubber products industry (for example, tires to the USSR, etc.). On balance, it is possible to state that without deep economic reform the results shown in the first two variations will not lead to any desirable changes in the structure to an extent which is unavoidable for the Czechoslovak economy.

Variation 3 already presents more fundamental changes. As a consequence of more rapid privatization and changes in production programs, the share accounted for by the engineering industry is declining very rapidly, the extraction of minerals is declining more rapidly than during the two previous variations, and the share accounted for by the textile industry returns to the starting level of 1990, following a temporary rise. The share accounted for by the chemical industry, by the production of electric machinery, and the production of electricity, water, and gas is also higher—which is in harmony with the trends in developed countries. The

shares accounted for by woodworking production are growing rapidly (manufacture of furniture and paper), an area where Czechoslovakia could have a certain comparative advantage and could, by substantially raising the quality of wood processing, be exporting more products at higher processing levels. In this variation, reducing the demanding nature of metals production and restricting the excessive scope of engineering production even results in a decline of the share accounted for by metallurgy (following a temporary rise in 1991). The relatively lower share accounted for by the production of transport media in this variation, in comparison with variation 1, does not mean a lower absolute volume of production for this branch because overall industrial production in 1995 in variation 3 is substantially higher. Even the share accounted for by the foodstuffs industry is scheduled to grow slightly, although additional growth will not be possible here without more express modernization of the production base with the participation of foreign capital. Much will depend here on the level at which, following the current decline, demand for foodstuffs will stabilize.

In comparison with variation 3, variation 4 no longer shows any more fundamental structural changes, although the course of the individual shares changes within the time frame of the five-year period monitored. The decline in the share accounted for by mineral extraction is somewhat deeper. Tie-ins with the Soviet market, provided it is open to our products, lead to an increase in the share accounted for by the textile, clothing, and footwear industries. Other changes are seen in Table 4. It is necessary to once more draw attention to the fact that variation 4 represents a relatively higher volume of industrial production toward the end of the period under investigation, an increase of more than 10 percent over and above the production shown for 1995 in variations 2 and 3.

### 3.3. Forecast of Branch Productivity of Labor and the Structure of Employment

Table 5 shows the model forecast of branch labor productivity in the industry of the CSFR for the period through 1995, developments in four selected branches as depicted graphically in Figures 6 through 9. A characteristic of past periods was the significant backwardness with respect to productivity in terms of the developed nations (the extent of this backwardness is clear from Table 2 in Part 1.2). As has already been stated, it is not possible to anticipate an express decline in the current state of backwardness relating to the level of productivity compared to the group of developed nations in the quantitative sense in the immediate future. Moreover, it will likely be a matter of the qualitative conversion of a decaying portion of production in the sense of a more express rise in its profitability, its technical level, and its convertibility.

**Table 5**  
**Labor Productivity in Industry by Branch**  
(in thousands of S.U.S. per worker)

Branch	Actual		Forecast 1995			
	1991	1990	Variation 1	Variation 2	Variation 3	Variation 4
Extraction of minerals	10.26	9.95	8.58	9.81	10.34	11.88
Foodstuffs industry	10.32	13.51	13.69	14.40	13.01	13.93
Textile production	7.33	9.24	9.46	10.13	10.59	11.44
Clothing production	3.94	4.93	5.61	5.76	6.09	6.34
Production of hides	4.82	6.64	9.06	9.13	9.53	9.73
Production of footwear	5.96	7.09	10.01	10.30	10.67	11.06
Production of wood products	8.94	13.31	13.47	14.17	14.63	15.48
Production of furniture	4.83	6.97	9.00	8.90	9.50	9.59
Production of paper	12.57	17.13	16.46	17.90	18.51	20.23
Polygraphic industry	6.93	9.18	10.31	10.43	10.99	11.30
Chemical and rubber industry	17.93	22.21	21.47	22.76	23.55	23.18
Processing of nonmetallic materials	10.07	12.74	11.65	12.88	13.42	14.86
Metallurgical industry	14.22	15.93	15.34	16.67	17.28	18.85
Metalworking production	7.31	8.90	9.49	10.13	10.69	11.54
Engineering production	10.65	11.87	11.34	12.46	13.06	14.42
Production of electric machinery	10.10	13.73	12.96	14.47	15.18	17.07
Production of transport media	10.70	11.96	13.49	15.20	15.91	17.06
Production of instruments and facilities	9.29	10.06	8.43	9.79	10.29	11.99
Remaining processing industries	6.67	9.18	9.65	10.15	10.63	11.33
Production of electricity, gas, water	23.29	28.20	28.77	29.55	30.72	34.05

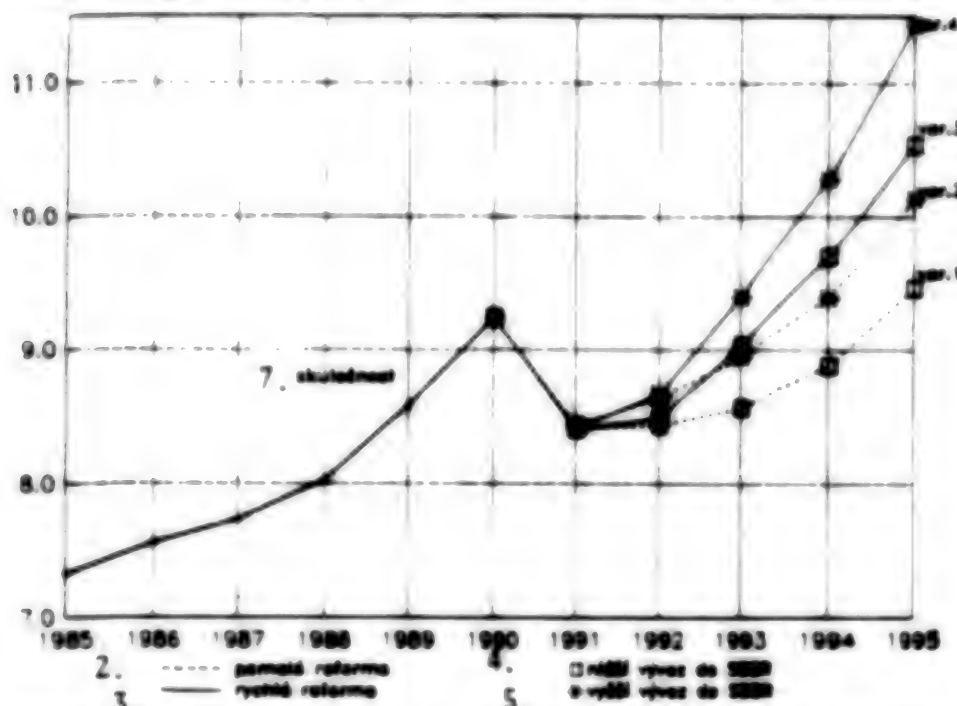
Regarding the distribution of productivity within the framework of the spectrum of its level by individual branch, the highest levels continue to be achieved by the branch responsible for the production of electricity, gas, and water, followed by the chemical and rubber industries, by paper production, by metallurgy, etc. The sequence of the branches according to the level of their productivity remains essentially unchanged in the individual prognostic variations—except for actually negligible exceptions—and either more rapid growth or slower decline occurs in conjunction with the manner in which aggregate productivity in all of Czechoslovak industry develops within the framework of a given variation.

The year 1991, apart from showing a sizable decline in employment and a decline in productivity which, with respect to certain branches, is changing to stagnation in 1992 and particularly in variation 1, very gradually tends to only approximately reach the level of 1990 in the year 1995. In other variations, there is a more favorable development regarding the productivity of labor after 1992, as a consequence of more rapid economic reform, higher exports to the USSR, or the possible impact of both of these factors (in variation 4, according to which the cumulative level of labor productivity in industry in 1995 would exceed the level of 1990 by 23 percent). And the dependence of the development of labor productivity upon internal as well as external factors is different in the individual branches. For example,

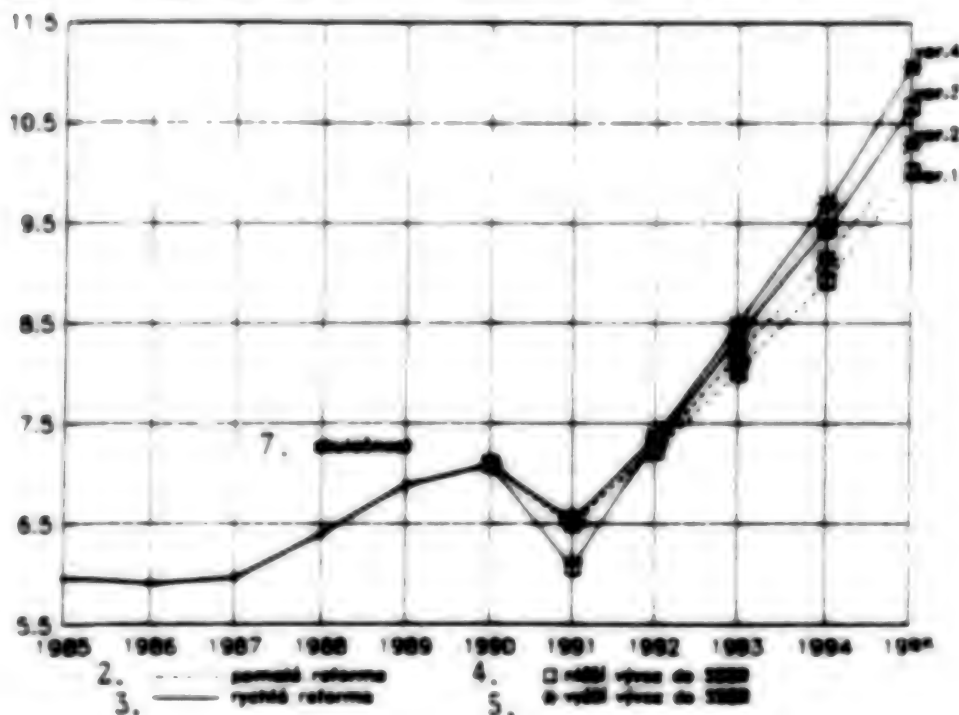
in the engineering industry and in the electrotechnical industry, this dependence is high and, therefore, the development of labor productivity varies considerably in the different variations (Figures 8 and 9). On the other hand, in the production of shoes, where it is possible to anticipate a more express inflow of foreign capital, the rapid growth of labor productivity is typical in all of the variations (Figure 7).

The prognosis of the development of the structure of employment in Czechoslovak industry through 1995 according to the four processed variations is listed in Table 6. The development of the structure of employment is essentially similar to that of the structure of production. The decline in the share of employment in the basic engineering industries (from 19.1 percent in 1990 to 15.8 percent in variations 1 and 2 or to not quite 14 percent in variations 3 and 4 in 1995), is particularly expressive. On the other hand, the share of employment in the branches of the light and foodstuffs industry is on the rise. Any possible differences compared to the development of the structure of production are accounted for mainly as a result of the more rapid or the slower growth of labor productivity. For example, in the manufacture of transport media, the relatively higher participation of foreign capital should lead to a more rapid growth of labor productivity and, therefore, in this branch, there is a decline of labor productivity's share in employment, even though it is on the rise in terms of production.

GRAF 6 1. Textilní výroba - produktivita práce v tis. USD na pracovníka



GRAF 7 6. Výroba obuvi - produktivita práce v tis. USD na pracovníka



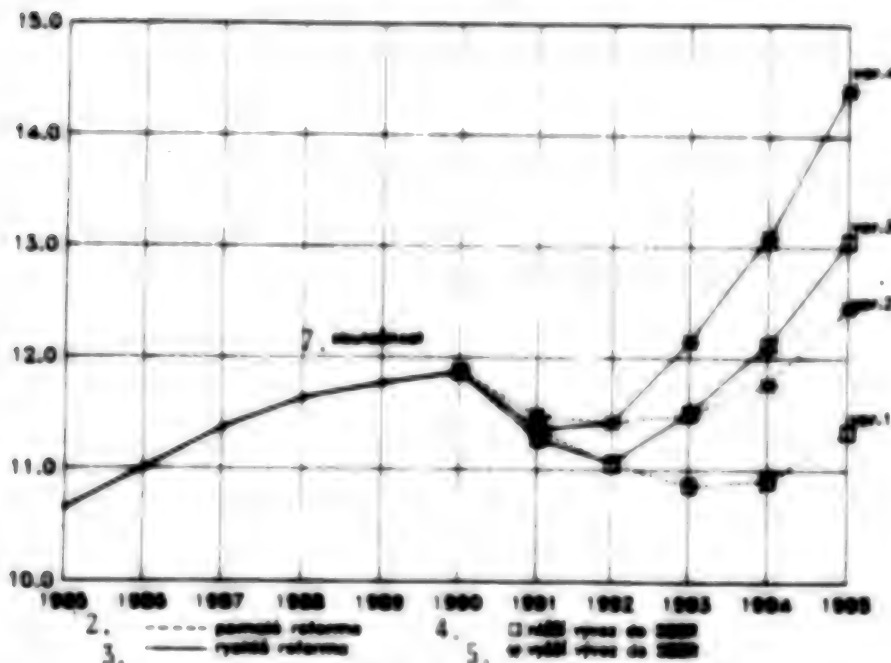
## Key:

1. Textile Production (labor productivity in thousands of \$U.S. per worker)
2. Slow reform
3. Rapid reform
4. Lower exports to the USSR
5. Higher exports to the USSR
6. Production of Footwear (labor productivity in thousands of \$U.S. per worker)
7. Actual

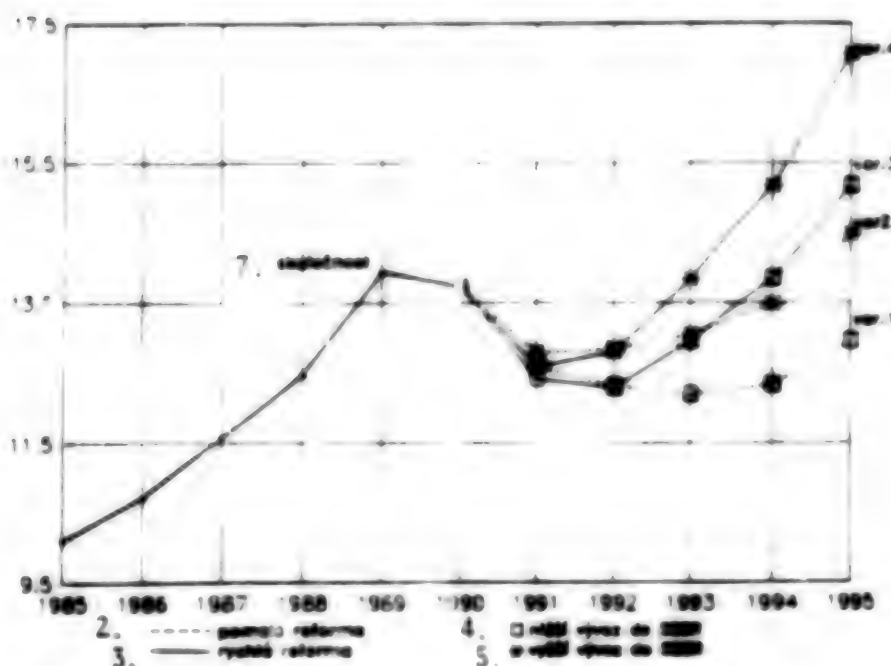


GRAF 8

1. Strojní výroba  
produktivita práce v tis. USD na pracovníka



GRAF 9 6. Výroba elektrických strojů produktivita práce v tis. USD na pracovníka



Key

- 1 Engineering Production (labor productivity in thousands of \$U.S. per worker)
- 2 Slow reform
- 3 Rapid reform
- 4 Lower exports to the USSR
- 5 Higher exports to the USSR
- 6 Production of Electric Machinery (labor productivity in thousands of \$U.S. per worker)
- 7 Actual

Table 6  
Structure of Employment in Industry  
(in percent)

Branch	Actual		Forecast 1995			
	1989	1990	Variation 1	Variation 2	Variation 3	Variation 4
Extraction of minerals	6.71	6.69	6.07	6.64	5.68	5.15
Foodstuffs industry	7.51	7.70	7.44	7.60	8.20	8.34
Textile production	7.62	7.09	7.87	8.34	7.06	7.95
Clothing production	3.65	3.38	3.72	4.61	4.72	5.48
Production of hides	0.95	0.91	0.70	0.82	0.70	0.84
Production of footwear	2.46	2.41	2.09	2.60	2.19	2.67
Production of wood products	2.28	2.20	2.02	1.99	2.13	2.10
Production of furniture	2.18	2.08	2.27	1.88	3.25	2.72
Production of paper	1.72	1.67	1.83	1.81	2.14	2.12
Polygraphic industry	1.02	1.02	1.11	1.08	1.85	1.79
Chemical and rubber industry	6.67	6.62	6.90	7.20	7.39	7.71
Processing of nonmetallic materials	6.00	5.88	7.20	5.97	6.62	5.53
Metallurgical industry	6.95	7.80	8.34	8.17	7.34	7.28
Metalworking production	5.76	5.98	5.99	5.65	6.45	6.51
Engineering production	19.14	19.09	15.76	15.85	13.89	13.96
Production of electric machinery	5.75	5.98	6.21	5.82	6.82	6.47
Production of transport media	8.95	8.79	8.74	8.39	7.95	7.99
Production of instruments and facilities	0.53	0.65	0.62	0.66	0.89	0.74
Remaining processing industries	1.89	1.94	1.55	1.59	1.98	1.62
Production of electricity, gas, water	2.46	2.68	5.10	2.95	5.36	3.22

### Conclusion

The processed prognostic analysis is the first attempt at compiling variations of a medium-term forecast pertaining to the development of the branch structure and the productivity of labor in Czechoslovak industry during the current critical period, in which the Czechoslovak economy is transforming itself from a central command economy to a market economy.

The results of the prognostic analysis were processed with the use of a special econometric model, created on the basis of the analysis of long-term time frames recorded in 10 economically developed countries and of the CSFR, broken down by 20 industrial branches. The results indicate a considerable dependency of subsequent developments in Czechoslovak industry both on the pace of the economic reform and on the realistic possibilities to export to the USSR and to other East European countries. The influence of additional factors, particularly a more express participation of foreign capital in some branches, can also be important.

The model computations confirm the realistic possibility which exists regarding the revival of industrial production (after its temporary decline in the first phase of the transformation) within the framework of the five-year span examined. However, it is not possible to anticipate

that the existing excessive share in the creation of the gross domestic product which is accounted for by industry can be maintained. Similarly, it is not possible to maintain the excessive share accounted for by the engineering industry in overall industrial production.

According to the processed prognostic analysis, the rational behavior of economic entities under market conditions should, in the given transformation period, lead to relatively important changes in the branch structure of industry. This structure should gradually approach the structure corresponding to the economic level and dimensions of the CSFR according to dependencies which are generally valid for small market economies, with certain modifications in view of the traditional or newly developing specifics of the Czechoslovak economy.

The adaptation of Czechoslovak industry to market conditions in the period 1991-95 should, according to the prognostic computations, also lead to the liquidation of the phenomenon of social reemployment as a result of the express decline in the number of workers in industry in conjunction with the growth of labor productivity. However, within the framework of this time span, a more express approach to the levels of labor productivity in economically developed countries is, for the time being, not realistic.

#### Footnotes

1. These hypothetical data are based on the assumption that the structure and productivity of Czechoslovak industry would be developing in accordance with analogous laws such as they are listed for developed countries, but with greater weight being assigned to the group of small countries.

This is not a matter of mechanically copying average data for these countries, but involves a certain amount of separation of those ties which are common to the given set of countries (general), with the subsequent application of these ties to Czechoslovak data.

2. This is a case of including volumes of production within the structure arranged by branch (in ISIC classification), expressed as a value added as a result of processing, in millions of \$U.S. in constant prices for 1980.

The calculation in \$U.S. was accomplished according to the UNIDO (UN Industrial Development Organization) rate of exchange for the parity of industrial production in 1980 prices, that is to say, at a rate of Kcs10.94 per \$1.

3. In ISIC classification, excluding the production of electric machines, transport media, instruments, and metalworking products.

4. The population growth was keyed in according to past developments identically for each variation and a growth rate of 0.14 to 0.19 percent annually.

5. This is evident from the depth of the transformation process and from the relatively excessive extent of industrial (particularly engineering) production in the economy of the CSFR.

6. The high rate of growth pertaining to labor productivity in the last years of the forecast must, however, be judged in conjunction with the previous low level (among others, as a consequence of social reemployment) and in view of the temporary decline which occurred during the period of the descending phase of economic transformation.

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#### Survey of Situation in Power Plant Privatization

4U1803140392 Prague LIDOVE NOVINY in Czech  
17 Mar 92 p. 2

[Article by Milena Geussova: "The Keys Are 'at Jezek's'"]

[Excerpt] Small hydroelectric power plants with an output of less than 10 megawatts (MW) attract more attention than they actually deserve. It has been this way since last summer, when some of them were first proposed for small-scale privatization and then removed from the list. The original question of whether to privatize these power plants individually has gradually been replaced by the question of how to do it. Czech Privatization Minister Tomas Jezek is, however, the person holding the key.

He does not even have to take any notice of the latest proposal submitted by the ministry to privatize 10 power plants with an aggregate output of 1,040 MW in the small-scale privatization and 77 power plants with an aggregate output of 71,159 MW in public tender (with the exception of seven plants, where restitution is under consideration). In addition, according to a commission decision, 21 power plants with a total output of 53,910 MW should be privatized together with the national enterprise only in the second privatization wave. Numerous privatization projects were submitted for individual facilities. Acting as a legal entity, the Businessmen's Union has even made an offer to directly purchase a complex of 13 power plants. The businessmen prefer a direct purchase at book value to sale by tender. They also criticize the ministry for classifying this or that particular plant in a particular category. The power distribution enterprises hold the opposite view [passage omitted].

### 'Objective' Appraisal of 'Renationalization'

#20 HU1784 Budapest NEPSZABADSAG in Hungarian  
25 Feb 92 p.4

[Article by Laszlo Urban, member of Federation of Young Democrats, FIDESZ, and of the State Property Agency supervisory committee. "They Want It and They Don't: Privatization, Renationalization"]

[Text] Reports concerning the government's perceptions, intentions, and even actions related to privatization raise concern these days. The forced conversion of state enterprises into stock corporations, the proposed establishment of a superholding corporation called State Ownership, Inc. [AT Rt], and personnel changes at the State Property Agency [AVU] and at state enterprises becoming stock corporations seem to support concerns that the MDF [Hungarian Democratic Forum] government is not really intent on accomplishing privatization, and that instead, it is renationalizing the enterprises. In doing so the MDF government strives to assign persons loyal to the MDF to head as many enterprises as possible, and using the client system, it tries to "buy back" as much as possible of the mass support it had lost during the past two years.

Without disputing the fairness of the above characterization, I will attempt to describe the above-mentioned processes in a somewhat more objective fashion. Such objectivity is needed because, according to my experience, various government and political factors are trying to approach privatization based on different considerations, and thus it is inappropriate to present the resultant situation as the creature of some demonic intent to concentrate power. However elegant and attractive an argument asserting the prevalence of an outright power logic, as the dominant intent behind these happenings, may be, in reality it is unlikely that the positions taken by various government officials regarding privatization fit into a long-term, premeditated overall logic that is being directed by an individual for power-grabbing purposes. The conduct of persons occupying positions of power can always be described this way of course, but one cannot assert with certainty that this logic can be forced upon these officials from the outside as long as their motivations are not uniform.

### The Three Lead Actors

What political forces have driven the privatization process in this direction? The present situation is a result of an interaction between three actors (groups) of key importance. The MDF's Monopoly Group has, for a long time, been voicing its aversion to managers who acquired leadership positions under the Kadar system. Whether the motivation of the Monopoly Group is justifiable on grounds of personal injury, human envy, complaints by the electorate, or a combination of all of these factors is essentially a side issue; of importance is the fact that the government is also unable to avoid the brunt of populist critique. It is unable to avoid such

criticism not only because it needs the votes of representatives seated in parliament, but also because rumors have it that this group also exerts influence among spokesmen inside the government. The pressure that originates from this direction aims for AVU to exercise more stringent controls over state enterprise managers, and if the AVU proves to be incapable of exercising such control, the group recommends that the respective ministries responsible for the various economic branches exercise increased control.

Throughout last year, Mihaly Kupa had criticized the AVU activities on grounds of an entirely different consideration, and recommended that the property management and ownership supervision functions be severed from the property sales agent functions. Kupa had not been disturbed by spontaneous privatization, to the contrary. He had hoped to see a further acceleration of this "market-oriented" form of privatization once AVU engaged itself only in selling only, and not in owning property. In conjunction with this, Kupa would have liked to attain more personal influence in certain large-scale transactions. Probably for this reason, one of the proposals included a provision according to which the minister responsible for economic policy would have supervised privatization. AVU had tried to preserve its position of power as an independent decisionmaking center and the Finance Ministry's idea to degrade the AVU into a simple executive agency did not prevail at the governmental level; after all, the AVU council of directors includes representatives of many important ministries. The final outcome was not fully consistent with the original concepts voiced by any of the factors involved.

### Trojan Horse

The idea of segregating part of the property slated to remain under long-term state ownership served as the Trojan horse that supported challenges to the AVU's monopoly over privatization. In and of itself, the idea of combining enterprises (e.g. MVMT [Hungarian Electrical Works Trust], MOL [Hungarian Oil, Inc.]) belonging to the greatest variety of economic branches and even individually representing vast amounts of assets, into a single, huge, giant holding corporation makes no economic sense whatsoever, because one could assume that the state's strategic ownership considerations invoked in support of the dominant state ownership of these enterprises varied relative to each economic branch represented by these enterprises. This assumption is supported by the fact that the "property management" function was immediately returned to the branch ministries, as for example, in the case of the MVMT. Privatization could have continued even if only a prohibition list existed regarding enterprises which the government wanted to keep under majority or exclusive state ownership. The sense in having such concentration is to have a rival state organization which also deals with privatization alongside the AVU. This competitive situation could serve even as an inspiration, would it not be



that the overly selective process used in regard to enterprises slated to belong to the AT Rt. The profitability of these enterprises is far better than that of the rest of the enterprises. The form of operation, i.e. stock corporations, also enables the holding corporation to experiment with the "upgrading" of these enterprises and to borrow funds to accomplish that. If indeed, this activity became the dominant function of the AT Rt, we might recognize the AT Rt not so much as another state property agency, but as a state office that regroups funds, one that cannot be controlled from the outside. The government's opportunity to control the management personnel of these enterprises only amounts to an added advantage (for the government) because this type of control could also have been exercised through the AVI.

#### Power Play

What other conclusion could be drawn if we explained the situation that presented itself not by assuming that the MDF was intent on halting privatization and that it was busy developing its own clientele, but by viewing the present situation as an institutional constellation that presented itself as the result of one phase of a multiactor power play, in which the above-mentioned threat exists, but which may also yield another outcome.

Although it is true that the estimated market value of the aggregate assets slated to be concentrated within the AT Rt exceeds 40 percent of the operating assets of all state enterprises, one cannot be certain that a tragic situation would ensue only because the government had no fundamental intent to privatize this volume of assets. This would still leave enough work to be performed during the next two years with respect to the privatization of the rest of the enterprises, and a new government could develop a new strategy after the elections. With respect to appointments, the government would also be able to enforce its personnel considerations in the state sector in the absence of an AT Rt. The obvious solution would be a proportionate reduction in the size of the state sector, and we hope to be able to prevent the evolution of the Austrian model which conserved the state holding corporation as a result of the appointment of members of large parties in proportion to the control thus exercised. It would be beneficial if the opposition could render the AT Rt's financial transactions controllable by incorporating certain guarantees in the law (e.g. State Accounting Office [ASZ] controls over the functioning of the AT Rt).

Similarly, one cannot state with certainty that the forced conversion of state enterprises into stock corporations alone represents a problem, because in principle, managers could act as privatization agents at the enterprise level even after transforming an enterprise. One need not be concerned about AVI, in this context. AVI's function is to privatize. AVI officials are competent in the administration of privatization, and from the standpoint of having partners with whom AVI could cooperate at the enterprise level, enterprises operating in the form of stock corporations would clearly be useful. One should much rather be concerned about the increased influence

the various branch ministries might exert on individual transactions, under the veil of enforcing "industrial policy considerations" and establishing "branch restructuring holding corporations," the amount and scope of direction provided to the enterprises by the various ministries could, indeed, gain strength.

#### MNB Official on Central Bank Borrowing Strategy

92C H04000 Budapest TOZSDE AT RIR in Hungarian  
20 Feb 92, pp. 1-6

[Interview with Frigyes Harshegyi, Hungarian National Bank vice president by Karoly Bognar, place and date not given. "One Has To Be Recognized If the Amount Involves \$600 Million"—first paragraph is TOZSDE KIRIR introduction]

[Text] The central bank launched its 1992 borrowing program rather forcefully. Within a single month it has issued bonds for about 60 percent of amount scheduled to be borrowed during the entire year. It floated one of these issues for German marks [DM] and the other on the Samurai [Japanese] bond market in the total amount of \$600 million. What is the reason for this tornado speed, we asked Hungarian National Bank (MNB) Vice President Frigyes Harshegyi.

[Harshegyi] We felt that it would be better not to have so many small bond issues this year, but instead to appear in the market with at least \$200 million worth of bonds in each instance. This way we will be able to obtain the needed \$1 billion as a result of four or five bond issues—the amount we intend to obtain from the international capital markets this year.

We entered the Japanese market in January because all of a sudden interest rates on long-term loans began to decline at the yen market. Since investors might be counting on a further decline, we felt that we should, by all means, take advantage of the psychological moment when people are willing to purchase bonds under our conditions, in fear of a further decline in interest rates. This is not an easy task, and I regard the fact that we were able to enter the German market with a larger volume than ever before as a tremendous achievement. Since our bonds are purchased primarily by small investors, selling these bonds will take three or four weeks, but the success or failure of a bond issue is not determined by the time it takes to obtain subscriptions, but by the price at which the bonds are sold. The price must not drop below 98 percent [of the face value] and in our case it did not. This action is also a success for another reason. We have managed to emerge from the ranks of small issuers of bonds—all kinds of people experiment with issuing bonds worth DM200 million, but name recognition is needed for a DM600 million bond issue. We consciously scheduled these two large volume issues close to each other so that we have no need for money for

a long time, and to thus enjoy a more favorable negotiating position in the market. We might even be able to improve the price. Apropos prices: Those are determined by the market. The market rates debtors by categories, and bond prices are determined on that basis. The price of Hungarian bonds exceeds the prices charged to AAA-rated debtors by between 180 and 200 points.

[Bognar] Will the MNB enter the Yankee market in 1992?

[Harshegyi] We plan to do so, but the exact timing of this depends on the specific market situation. We will have to react very quickly if, for example, we receive a better than our present rating from the rating bureaus. At the same time, dollar interest rates are very low nowadays, and this should stimulate us to immediately try issuing bonds in the United States.

[Bognar] Would you be able to accomplish this sort of an official rating?

[Harshegyi] Yes, we could. A small group of investors who seek just barely acceptable debtors who provide a higher return exists in every bond market. Accordingly, we would have no problems in entering the U.S. market with our present, unofficial BB + rating, except that in this case we would have to pay a price that is higher by between 50 and 80 base points than what we would have to pay if we were rated as, say, BBB. One thing is certain. We will definitely be present in the United States this year.

[Bognar] The other day you held negotiations with Moody's experts who stayed in Hungary. What conclusions did you draw based on these discussions?

[Harshegyi] I believe that these experts have recognized the results we have accomplished during the past year and a half, since their most recent examination. Quite naturally, they were not silent about the negative aspects either, the ones that stem from the disintegration of CEMA and from the tensions created by the transition. They regard the possibility that our existing economic relations in our neighborhood become nonworkable as the greatest threat to us. Despite all this, however, they had a positive view of us, and this will certainly be reflected in our new rating.

#### **MNB Council Member Naray on Council's Role**

92CH0400D Budapest TOZSDE KURIR in Hungarian  
20 Feb 92 pp 1, 13

[Article by (kaposy): "Quartet Wishes. II"]

[Text] In our previous issue Central Bank Council members Tibor Erdos and Jozsef Subai spoke of the relationship between monetary policy and the economy and of their role to be played in the nine-member body. This week László Naray addresses the same issue.

"This body is supposed to determine the direction of monetary policy strategy, according to the Central Bank

Law. We may be able to operate a certain kind of control mechanism with the involvement of our outside members. I will represent my professional views in this work.

"I am very familiar with the principles of 1992 credit policies. I regard those as clear-cut. I believe that significant progress must be made not in the framework of the direction taken and goals established by the MNB (Hungarian National Bank), but in the information system which serves as the basis of central bank policies; we must render this system more efficient and capable of providing more detail. But this problem has been experienced not only by the MNB, but with respect to the entire information system in Hungary. Despite every effort, the MNB will not be able to pursue policies on truly solid foundations as long as it is forced to rely on 'feelings,' and simply because data concerning specific facts are not available on a timely basis.

"Intensive cooperation is needed between the Finance Ministry, the KSH (Central Statistical Office), and the MNB. I will encourage the processing and analysis of the related information, and the establishment of appropriate conditions for the flow of information.

"The Finance Ministry Division of National Economic Balances and Models—the place where I work—helps me in this regard, because the function of this division is to monitor and analyze actual and macroeconomic processes, and to prepare forecasts. I am convinced that the central bank's management policies could acquire better foundations if they had a more accurate picture of the actual situation of the economy and of anticipated changes in this situation. We may reduce the level of uncertainty regarding information by making coordinated, systematic efforts. To accomplish this, however, we must transform the data collection practice we have, one that can no longer be applied to the new economic system.

"I understand to a lesser extent, nevertheless, I assume that improvements could be made in the information system (in both directions!) between commercial banks and the central bank. The French practice could serve as a good example. Commercial banks are important sources of information from the macroeconomic standpoint. In France the central bank receives information in the course of the year about changes in money supply processes, and this is of great help in judging the fluctuations of the business cycle. This channel has not been appropriately utilized in Hungary.

"The mere fact that MNB monetary policies must contribute to the reduction of inflation and to the consistency of the current balance of payments with plans is a huge task for the central bank. It will be very difficult to accomplish this later unless we are able to show results in the near future.

"Accordingly, from the central bank's standpoint inflation and interest rates are the focal issues. A diverse analysis would be required to judge the kinds of tools we need, the direction we should take in making changes in



which is a very good example of something empirical. In the 1980s, when the government in time the economic situation was very difficult and interest rates were high.

I am not sure that the government can be criticized for supporting the economic policies. I am saying it is not the government's perception of mine if economic policy was not followed the appropriate path to reform. I agree that the government is a mistake making. The government was not regulating on the basis of the economic situation. It was not. I will be careful not to say that the government is wrong that we should not say that the government is wrong that doing so would cause the same mistake as providing less stringent regulation. I am not sure.

### Private-Sector Development Statistics Reported

#### KSH Report

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exchange part of such capital has been larger in industrial firms (84.4 million forints and 34 million forints respectively) than in commercial firms (6 million forints and 2.4 million forints respectively).

Privatization of state enterprises has played an important role in changing ownership conditions. According to Finance Ministry data, as of the end of 1991 some 124 state enterprises have been transformed, and the transformation of an additional 686 enterprises has been in progress. The book value of all state assets affected by enterprise transformations comes close to 650 billion forints.

(Source: KSH)

### Enterprising Near Exhaustion

92C H0405B (Budapest: *Állam* [State in Hungarian], 5 Mar 92, p. 18)

[Article by Richard Farkas: "Entrepreneurial Mood Fluctuating Fever Curve"]

[Text] The growth rate of the number of entrepreneurial ventures has been continuously slowing in 1991 than suddenly jumped to a high at the end of the year. There are more than 40,000 limited liability corporations according to APFH (State Revenue Service).

Many factors have contributed to the fact that the number of enterprises has increased so greatly.

One is that a certain stratum has evolved whose members want to realize an idea or a concept they have, and think of becoming entrepreneurs based on their own will and determination, despite the initial risk.

### Passing Antipathy

Within industry the transformation from the enterprise form of operation has accelerated. In reality this generally results in smaller units severing themselves from the enterprises. These are independently marketable and from the legal standpoint begin their operations as independent companies. Still, the core of the enterprise remains or transforms itself into some kind of company.

Another factor that has contributed to the significant increase in the number of small entrepreneurial ventures is the fact that as a result of the deep-rooted—in some respects drastic—changes occurring in the structure of the Hungarian economy thousands of workers have become unemployed overnight. Unfortunately, the entrepreneurial ventures that result from this situation have been thought through to a lesser extent and have less solid foundations.

The main reason for the growth in the number of small entrepreneurial ventures can be found mainly in social changes. Although Hungarian entrepreneurial culture remains unchanged insofar as its lack of roots is concerned, private entrepreneurs have become socially accepted in recent years, and the often artificially inbred

social alienation that has surrounded entrepreneurs in the past is on the decline. While the standard of living that can be attained as a result of traditional activities has plummeted, part of the entrepreneurial stratum is becoming spectacularly prosperous. At the same time, the aversion to this phenomenon is being ameliorated by the fact that these entrepreneurs create workplaces and pay significantly higher wages to their employees than state enterprises pay for the performance of identical work.

Yet another reason that may be included here is the fact that many members of the former middle class have lost their power and thus prefer to try their luck as entrepreneurs. Their new, successful profile erases the role they have played in the past, and they once again become respected people, albeit on another line.

From the standpoint of the younger generations—people just about to start their careers or who are still able to change—the private sector, becoming part of some kind of venture, offers virtually the only hope for success and a breakthrough.

Another incentive is the fact that anyone who has ever been involved in an entrepreneurial venture, or has worked at a small enterprise, would have difficulty in adapting to a more strict work process. One can observe the way entrepreneurial ventures multiply by fission. Former partners, employees or groups often initiate new entrepreneurial ventures individually.

### Number of Incorporated Businesses at Year's End

Year	Total	Limited Liability Corporations	Stock Corporations
1988	10,811	450	30
1989	5,235	448	87
1990	20,430	8,117	646
1991	61,756	47,136	1,077

(Source: KSH)

### Barriers

The entrepreneurial image projected by the press following the system change has greatly changed. The "institutional persecution" of entrepreneurs had ceased and an increasingly favorable image is beginning to take shape.

This is just about all we can say about the dismantling of barriers during the past two years. Technical barriers in the path of entrepreneurial ventures remain unchanged.

Quite naturally, legal provisions, the fact that the corporation law provides appropriate opportunities for starting entrepreneurial ventures has played a great role in increasing the number of entrepreneurial ventures.

The changing entrepreneurial mood that could be seen during the second half of 1991 signalled a shrinkage of

the stratum that could be drawn into entrepreneurial ventures. Fewer and fewer people have savings, and the number of new entrepreneurs is on the decrease.

A lack of capital characterizes both starting and practicing entrepreneurs. Most people in Hungary do not have sufficient liquid savings to start an entrepreneurial venture, and those who did not have such savings thus far are gradually becoming impoverished. Although individual savings are gradually increasing, it is likely that all this suggests is that a smaller number of savers set aside increasingly larger amounts.

One may suspect that the purpose of increased savings is not primarily to forge capital out of money, but to increase individual financial security and to provide for future consumption. High rates of withdrawals force entrepreneurs to increasingly conceal their income; on the other hand, they are unable to reinvest their concealed income into their own businesses, therefore they consume such income (in the form of luxuries) or invest in other firms as anonymous capitalist partners, i.e. they scatter the little capital they have or accumulate capital temporarily. Increased competition counteracts this trend, because neglect of one's business leads to decline.

#### **Becoming Exhausted**

The softening of the entrepreneurial drive in the course of the year has been followed by a fever to establish new firms; almost 4,000 firms had been registered in December. The "big jump" at the end of the year was

composed of several factors. One of these is the fact that state enterprises are becoming businesses, and the other factor is the usual year-end fever to invest and to establish firms, but in this instance the new tax rules have also played a role, particularly from the standpoint of independent intellectual occupations.

For this reason we have good reason to believe that the entrepreneurial mood is in the process of becoming exhausted. In addition to the above-mentioned reasons, this may be attributed to the fact that society's entrepreneurial reserves that have accumulated in the previous economic system have run out. Most professionals, who in those days could not find their places, have already become entrepreneurs, and a large part of today's starting entrepreneurs consists of a new generation of those forced to enterprise because they have become unemployed, and of enterprise managers who want to become independent.

The most uncertain of these groups are the unemployed wanting to become entrepreneurs; their ventures are the least viable. Representatives of new generations (primarily university students) need time to accumulate the appropriate managerial and professional experience in advance in order to launch successful entrepreneurial ventures.

Short of a well-founded system that provides assistance and for development—one that could provide an incentive to starting ventures—the unfavorable trend is bound to continue. Fewer and fewer real ventures will be established as a result of that.

### Government's Socioeconomic Program Described

*ZEPH/404 Warsaw: ZYCIĘ GOSPODARCZĄ  
in Polish No. 16 Feb 92 pp. 1-4*

(Article by Marek Musiak: "A Change in Rules")

The first versions of the current assumptions of the Socioeconomic Program were drafted at the CUP [Central Planning Office] as the planning headquarters of the previous government, in April of last year. But a proposal from planners is one thing and a government proposal is another. The nature of the new assumptions has also been influenced by the change of roles in the new government.

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Following hours of discussion at the second session of the Council of Ministers on 4 February, most government members approved the "Assumptions of the Socioeconomic Policy for this year," as Prime Minister Jan Olszewski declared, and, together with the supplements to these assumptions, the government is viewing them as the basis for drafting the final version for transmittal to the Sejm on 15 February. Immediately after Prime Minister Olszewski's declaration, the chief architect of these assumptions, Minister Jerry Eysymontt, described their main elements in reply to the questions of reporters.

According to Minister Eysymontt, the difference between the proposed assumptions and the current economic policy consists in acknowledging the fight against recession as the paramount goal, upon assuming at the same time that inflation will not exceed a specified level. Under this concept, the "specified" level of inflation is viewed as a "boundary condition" rather than as the paramount goal.

This is not a new philosophy. It has been presented in, among other places, this newspaper by many academics. In this respect, special mention should be made of the PTE [Polish Economic Society] study, the studies of the Institute of Finance, the publications of Prof. Grzegorz Kolodka, the studies of the Institute for the Functioning of the National Economy under the SGH [Main School of Commerce], the publications of Prof. Jan Szczepanski, and the studies of the Institute of the National Economy.

The previous two administrations did not, however, react to the signals received from the academic community. Many individuals can now declare: "I told you so."

#### What Recession?

If the fight against the recession is now to become the paramount goal of the new economic policy, then defining the desirable level of output for this year and the subsequent years is a cardinal problem.

Earlier, in the fourth quarter of last year, the proposed assumptions had postulated a GDP (Gross Domestic

Product) of 93-101.5 compared with the preceding year, and for 1993 they postulated a decline of only 2 percent, followed by zero in 1994. But apparently the problem at present is not so much slowing down the decline in the GDP during 1992-93 (we have already considered this in the assumptions) as creating the conditions for the assumptions to become translated into reality.

Thus, if now the postulated output level is to be considered as the "principal goal" (it should not be viewed through rose-colored glasses, artificially overestimated, I am saying that as I fear that the lower limit for the 1992 GDP, postulated at the level of 93 percent of the 1991 GDP, may be difficult to sustain).

A consistent pursuit of the economic policy in the direction of preventing the 1992 GDP from declining by more than 5 percent may prove to be difficult, because it would require an extremely rapid restructuring of the operating conditions of most enterprises.

#### Foreign Trade

The report on the state of the nation that was approved at the same (4 February) session of the Council of Ministers, states that compared with the preceding report of the previous administration, "a disturbing and, for the last 10 years, novel trend in foreign trade is the decline in exports recorded in 1991." The principal reason has been the 42-percent fall in exports to the countries of the former CEMA, a fall that could not be compensated by the more than 20-percent growth in exports to EEC countries.

The surplus of exports over imports has dwindled drastically. In terms of the national currency, it plummeted from more than 45.5 trillion zlotys [Z] in 1990 to 22.1 trillion in 1991. This deterioration is even more acute if viewed in terms of hard currencies. In 1990 there was a foreign trade surplus of \$3.8 billion (of which \$3.4 billion in convertible currencies plus \$0.4 billion in clearing settlements), whereas in 1991 there was a deficit of \$21 million (but a surplus was earned in clearing settlements, in which after the first 11 months it reached more than \$212 million, and I do not believe it has decreased in December).

The slight zloty surplus in 1991 thus derives in its entirety from the trade reckoned in transfer rubles. Recent GUS [Main Statistical Administration] data indicate that at the end of 1991 that surplus amounted to more than \$43 million transfer rubles, of which 199 million from the first half of the year and 144 million from the second (with 123 million for December, which is difficult to understand in the light of the various declarations about basing foreign trade with CEMA countries on convertible currencies). Including the 1990 surplus of 4.4 billion transfer rubles, this adds up to more than 4.9 billion transfer rubles for the last two years.

The problem is that the proexport measures envisaged in the government draft of the assumptions are for the most



part (linked to budgetary measures (relinquishment of specified budgetary receipts). In terms of an ideal model this can be understood as a way of desisting from taking advantage of any drastic devaluation with its inflationary consequences. But the attendant problem is that any reduction in budgetary receipts also threatens an increase in the already large budget deficit.

#### What Budget Deficit?

The figures adopted in the "Assumptions" for 1992 concerning the budget deficit have already been widely publicized in the press, both in relation to the GDP (4.5-5 percent) and in quantitative terms (about Z60 trillion).

This is a dramatically high budget deficit, but I fear that it cannot be any lower, perhaps above all in view of the need to curtail certain budgetary receipts in order to promote exports.

The principal factor in curtailing these receipts is the need to reduce fiscalism with respect to the domestic output supplying the domestic market as well, so as to make that output more competitive in face of the powerful competitive pressure exerted by imports.

Of course, there are some previously overlooked possibilities for restoring certain budgetary receipts. For example, it is rightly assumed that the government's monopolies over alcohol and tobacco should be restored (this was also proposed, among other things, by the PTE study).

In our conditions an antirecession policy considered as the principal goal cannot be pursued without some specified government interference, other than postcommunist but just as costly, and this will require a marked increase in budgetary outlays. It is paradoxical at present that, e.g., the Ministry of Finance lacks the funds to keep the Institute of Finance going. (The issue is broader as it also concerns other research institutions which are at present rather nonchalantly being shut down, apparently another occurrence to be looked into.) After all, that institute was one of the first to point to the need to adjust the government economic programs for 1990-91 in precisely the direction which the present government intends to follow.

Government finance is linked to the problems of privatization. The revenues from privatization in 1991 totaled only Z3 trillion (instead of the anticipated Z15 trillion). Appraisals of the assets to be privatized have been superficial, and enterprises are considered as privatized according to dubious criteria. A thorough assessment of the effects of privatization on enterprise performance and financial results is still lacking.

The new privatization policy requires a particularly thorough preparation. This concerns the so-called nationwide privatization program. Decisions in that field must be preceded by a precise analysis of government finance.

It is to be considered that this year, and next year as well, as envisaged in the "Assumptions," budgetary receipts from the tax on the assets of state enterprises will undergo "a fairly substantial reduction" and that moreover three different versions of relaxing wage restrictions are being considered. In effect, this should counteract the recession to some extent. In other words, were these measures not envisaged, the recession would be deeper and as a result budgetary receipts would be still lower. But for the short run a concomitant decline in these receipts has to be expected along with a—temporary, I hope—recession-induced decline in revenues from turnover and income taxes.

#### What About the Currency?

That is perhaps the most difficult problem for the "Assumptions." Its difficulty is compounded by a kind of inertia in the reasoning of some Western experts, including IMF ones—their experiences gained for the most part in the countries of Latin America incline them to view the following factors through a magnifying glass:

- The money supply created by the banks, which they always view as excessive.
- The inflation, which they would like to eliminate more rapidly.
- The budget deficit, which they would like to reduce very rapidly.
- The payments deficit, which they also would like to reduce as soon as possible.

It will not be easy to reconcile these options with the fight against the recession as the principal goal of the economic policy.

When asked (on 4 February) about the differences between the current and the proposed economic policies, J. Eysymont answered, "The last two years were devoted to reducing inflation and maintaining a stable currency rate of exchange. The present government values these achievements but is placing the chief emphasis on overcoming the recession and activating debt-reduction mechanisms."

I am citing that answer literally, in view of those "debt-reduction mechanisms," which I interpret as combating our monstrous payments problem.

An integral element of this year's economic policy is the money and credit policy. This policy and its strategy should be devised. There are, e.g., the long-known proposals of Prof. Zdzisław Fedorowicz, presented in, among other places, *ZYCIĘ GOSPODARCZE* as far back as in 1990, concerning changes in the principles of debt servicing. The point is that, in the presence of a high inflation rate, the debtors should not be made to face the necessity of repaying their debts more rapidly (than specified in the debt agreements). To my knowledge, the banks have not so far responded to the substance of Z. Fedorowicz's proposals.

### And What Inflation?

On the other hand, I have come across various versions of the levels of price increases proposed in the "Assumptions" from 35 to 46 percent (anticipated in December 1992 compared with December 1991). The Ministry of Finance had earlier made its own proposal as well (38 percent).

For January the Ministry of Finance envisages a 3 percent price increase. This means that (assuming a 46-percent price increase from December 1991 to December 1992), prices would increase by 39 points over the remaining months—that is, by 36 percent, because in every subsequent month a 1-percent increase means more than 1 point of these 46 percent. But will that 46 percent be enough? I'm afraid not. For the following reasons:

First, official prices (price controls) nowadays account for only a small proportion of the volume of sales (11 percent of the sales of consumer goods and 3 percent of the sales of producer goods). Thus, the possibilities for halting inflation by means of official prices are relatively limited.

Second, I assume that as soon as for the first quarter of this year the latest statistics on foreign trade will necessitate raising to Z20 from Z9, or perhaps more, the threshold of the daily devaluation of the zloty, it would be good in this connection if a pledge to lower that threshold in the second half of 1992 were to be made, thus providing the conditions of stability needed by exporters and investors.

Third, in the presence of a continuing recession, the interplay of costs, including wages and prices, intensifies the inflationary pressures.

Fourth, The high budget deficit is, and shall remain so for the next few years, a spur to inflation.

Fifth, the price scissors in agriculture are wide open (in conditions in which the fight against the recession will also be reflected in the new agricultural policy, these scissors can no longer be so wide open).

Other reasons could also be cited. Another major reason is the financial obligations relating to the foreign indebtedness, including those serving to reduce it. Or too, there are Poland's payments possibilities, which are linked to the eventual activation of the stabilization credit so far withheld by the IMF.

Thus, there are many problems. If the postulated inflation level is to be retained as a "boundary condition" and at the same time an antirecession policy, the principal goal is to be pursued, then under the new circumstances that "boundary condition" should not be too rigorously followed. Previously, for the last quarter of 1991, presentations of CUP assumptions referred to an inflation rate not lower than last year (i.e., about 70 percent annually and about 60 percent on a December-to-December basis. It seems to me that a return to that

version would do more to assure the "paramount goal" of the philosopher behind the economic policy of the new government.

### Crisis Reported in Upper Silesian Industry

CEP02454 Warsaw RZECZPOSPOLITA (ECONOMY AND LAW) (supplement) in Polish 18 Feb 92 p 1

[Article by Barbara Cieszkowska, "Silesian Industry: Less Than Zero"]

[Text] "An incredibly dangerous phenomenon," is how Dr Andrzej Czarnik, director of the Economic Department of the Voivodship Administration in Katowice, described the constant decline in production of the enterprises located in that region. After a temporary halt of that decline in the second half of last year, it has recently begun to increase again. Quite alarming data were presented on the 18th, during deliberations of the Voivodship Local Government Sejmik in Katowice.

Over three years, from 1989 to 1991, there has been a 31 percent decline in production. The sale of manufactured products fell by 35 percent, with the greatest decline coming in light industry (44 percent), the metallurgical industry (41 percent), and the electromachine industry (42 percent). This also occurred, though on a somewhat lesser scale, in the chemical industry (34 percent) and in the fuel and energy industry (31 percent).

Profitability has also declined radically. In 1989, it came to 35 percent (calculated as gross profit, by the end of last year, it reached only 6.5 percent. After deducting taxes paid to the treasury, the net profit of industrial enterprises in Katowice Voivodship came to minus 1 percent—thus, on average, these enterprises sustained losses.

Only nonferrous metals foundries made profits (of about 47.5 percent), though it can be concluded from reports of the last few days that the situation is worsening there as well. The metal industry came out even, or achieved a net profitability of zero, the glass industry, of 1.5 percent, the paper industry, of zero, the clothing industry, of 1.5 percent, and the food industry, of 3.5 percent.

An analysis of 864 enterprises in Katowice Voivodship (i.e., 64 percent) shows that 25 percent of the enterprises in Silesia worked at a loss.

The entire Polish industry of iron and steel metallurgy yielded a negative outcome equal to 2,248.9 billion zlotys [Z].

Enterprises are up to their ears in debt to the banks—over Z70 trillion by the end of the year. Payment arrears grow. The level of outstanding liabilities reached Z115 trillion by the end of the year, and indebtedness Z125 trillion. Arrears to the treasury are also growing quickly. Over 300 enterprises are overdue with payments for six months, and another 500 or more, for three months.



Analysis shows that over 700 enterprises in Katowice Voivodship are suitable for liquidation or extensive restructuring. In fact, collapse threatens entire industries, metallurgy for example.

One can, however, find certain positive facts against this black background. Despite the collapse of the Eastern market, export has decreased only by 5 percent, which, in the opinion of experts, is a success. However, the fact that the collapse of the market of the former CEMA threatens 50 large electromachine enterprises with collapse is disturbing.

The private sector, on the other hand, is developing quickly in Katowice Voivodship. Two years ago, it employed 112,000 people, and by the end of last year, 270,000. Last year, 25,000 new private firms were added in the voivodship, and there are now close to 130,000.

The number of joint venture companies has grown 4.5 times, though for the sake of the truth, one should cite the words of Director Andrzej Czarnik from the Voivodship Administration who, discussing the economic situation of Silesia, stated: "I follow with amusement the reports about foreign and especially German capital buying us out. The capital which has come in, and the credits which that capital has given us, mean almost nothing in the region's economy."

Therefore, according to Dr. Czarnik, one should rather count on oneself, bring about cooperation between enterprises, and together attend to breaking through the recession.

#### **Recall of Foreign Banking Consultants**

##### **NBP British Consultant Recalled**

92EP0246A Warsaw RZECZPOSPOLITA (ECONOMY)  
AND LAW (supplement) in Polish 14 Feb 92 p 1

[Article by Pawel Jablonski: "Will the Experts Leave the Polish National Bank?"—first paragraph is RZECZPOSPOLITA introduction]

[Text] We have learned that the British Government is considering the recall of Stanislaw Bereza from the Polish National Bank (NBP). Stanislaw Bereza fulfills the function of general inspector of banking oversight. He assumed that function last summer, and was to fulfill it for 12 months. The British pay his compensation and housing, as part of government assistance, the so-called Know-How Fund program.

The immediate reason for the British Government's withdrawal of assistance in the form of a banking oversight expert—which Stanislaw Bereza undoubtedly is—is not known. One can only guess that the reason is the increasingly unfriendly atmosphere toward foreign firms and foreigners. This was expressed most glaringly in a statement by Anatol Lawina, a director from the Supreme Chamber of Control. In the course of the work of the Sejm commissions, he described S. Bereza as a

person of foreign citizenship, insinuating that he was operating against Poland's interests.

S. Bereza sent a letter on this matter, in which he explains that he has Polish citizenship, to President Walesa. He was born in Great Britain, but his parents are Poles. His mother was the daughter of Jozef Gallot, vice-minister of communications during the Second Republic; his father, Colonel Dr. Michal Bereza, was the chief doctor of the Polish field hospital in Italy in 1944.

Stanislaw Bereza, an expert on banking oversight, began work in Poland in 1990 as an adviser in the Ministry of Finance. At that time, his salary was paid by Barclay's Bank, one of the largest banks in the world, in which he had previously worked, while the British Government arranged his housing. In July 1990, with many reservations resulting from his origins, he assumed the responsibilities of general inspector of banking oversight. From that time, the British Government pays all his salary.

The reservations regarding the work of foreigners in the organs of banking oversight and other financial institutions probably result mainly from misunderstanding of the character of the institution of banking oversight. It is treated as a special service pursuing criminals who commit financial abuses in banks. This, however, is the job of the police. It happens that people call banking oversight demanding a "certificate of good operation" of some bank.

The main task of oversight, meanwhile, is the implementation of systemic solutions, the creation of reserves, bookkeeping, and accounting. These solutions may of course be implemented independently, without the participation of foreign experts; however, the probability that the Polish banking system would quickly attain the level of Western banks, and their trustworthiness is small.

We have learned, also unofficially, that the International Monetary Fund also intends, for similar reasons, to withdraw its expert working as an adviser in the National Bank of Poland. We called the IMF headquarters in Warsaw to inquire, but the head of mission Marc Allen is presently in Paris, and his office neither confirmed nor denied this information.

##### **IMF Fails To Confirm Recall**

92EP0246B Warsaw RZECZPOSPOLITA (ECONOMY)  
AND LAW (supplement) in Polish 14 Feb 92 p 1

[Article by Zofia Krajewska: "Only Routine"]

[Text] "I cannot confirm the information that the International Monetary Fund is withdrawing its representatives from Poland," J. Newman, chief of the IMF's Press Bureau in Washington, told RZECZPOSPOLITA's correspondent. "They are leaving," stated Newman, "because they have completed their work. At the end of this week they will return to Washington to prepare an internal report, which will not be available to the press."

According to information obtained at Fund headquarters, this report is to be the topic of discussion among a body of experts next week. Even from the reticences of officials it is clear that Poland is presently at the center of attention of the IMF directors, and its affairs have been put on the main working calendar.

Massimo Russo, director of the European Department, was unavailable in Washington on Thursday. Everything indicates that he has flown to Europe. It is also known that the present representative of the Fund in Warsaw has gone to Paris. It is worth mentioning, by the way, that Poland has not until now filled its "own" seat in the International Monetary Fund, and that this is hardly because of financial reasons—the representative's salary is paid by the IMF.

#### Ukrainian Terms for Economic Cooperation Noted

92EP02544 Warsaw GAZETA PRZEMYSŁOWA / HANDLOWA in Polish No. 7 16-23 Feb 92 pp. 1, 5

[Article by Mikołaj Onaszczyk, "Ukraine Invites Cooperation"]

[Text] That is how the fundamental idea and intentions embodied in the Ukrainian laws which went into effect the final half of last year can be read. The "Law on Ukrainian Foreign Economic Cooperation," passed on 16 April and published 12 June 1991, is the primary confirmation of this. This is one of the first legal acts of the former republics which comprehensively regulates or sorts out the new principles of the policy of cooperation and trade of Ukraine as an independent, sovereign and free state, both with the former republics of the former USSR and with the entire world.

Thus it also, and perhaps even chiefly, applies to economic relations with Poland, its close neighbor and historical partner. The confirmation of the good-neighbor relations was the recognition by Poland—the first country in the world to do so—of Ukraine's independence, the signing of an international agreement on economic cooperation and trade (in Warsaw on 4 October 1991), as well as the growing mutual interest in cooperation on the level of economic organizations on both sides of the border, i.e., on the level of the direct participants of this cooperation: companies, enterprises, individuals, tourism offices, and others.

To make it easier for Polish economic units to move about on the large and attractive Ukrainian market, a market of sales and procurement, it would be well to familiarize them with the basic assumptions of the above-mentioned law. It should be added that it has already been followed by a series of lower order laws and executive regulations, often temporary, which govern the details of cooperation. Those interested in cooperation should know both the laws and the executive regulations. They are available in Ukrainian agencies in Poland (e.g., at the Russian Trade Agency, where a representative of Ukraine holds forth), in chambers of commerce in Poland and Ukraine, in the Commercial Department of

the Polish General Consulate in Kiev, in consulting organizations being formed, and in some (e.g., Zamosc) regional chapters of the National Chamber of Commerce and the Polish Foreign Trade Company. The addresses of Ukrainian partners who are willing to cooperate with Poles can also be obtained there.

In this article I will attempt simply to present some introductory information on the extensive and steadily changing legal and systemic problems of cooperation with Ukraine. Thus I will try to reply to a couple of questions asked most often in talks with Polish economic organizations.

*Who can be a partner for cooperation?* According to Ukrainian law, the objects of foreign economic cooperation are natural persons, i.e., citizens of Ukraine, a republic of the former USSR, foreign states—as well as those who are stateless, who have the status of a legal entity and the ability to conduct legal transactions (in accordance with Ukrainian laws), but are permanent residents of Ukraine. These are legal entities, i.e., enterprises, organizations, companies, associations, unions, concerns, consortia, business houses, cooperatives, credit institutions, and others, registered and having their headquarters (permanent location) in Ukraine. These are, in addition to still other organizations, joint enterprises with the participation of Ukrainian and foreign economic units, registered and permanently located in Ukraine. The registration of organizational units is conducted by the Ukrainian Ministry of Foreign Economic Cooperation.

*What can Ukrainian foreign cooperation economic units engage in?* According to the law, the range of cooperation is very broad, beginning with export and import of goods, capital and labor force, through the creation of banking, credit and insurance institutions in and outside of Ukraine to joint economic activity with foreign economic units. The latter form applies to joint enterprises, the conduct of joint economic ventures and joint management of assets, both in as well as outside of Ukraine. They can engage in—which the law mentions separately—the exchange of goods for goods, i.e., barter transactions.

One of the important provisions of the law is that all Ukrainian foreign economic cooperation units have the right to open their own agencies on the territory of other states, therefore in Poland, too, in accordance, which is important, with the laws of these states.

*Do foreign economic units conducting cooperation abroad on the territory of Ukraine have the right to open their agencies in Ukraine?* The law states that they have such a right. But they must fulfill the requirement of registering with the Ukrainian Ministry of Foreign Economic Cooperation. The registration procedure takes about 60 work days. In order to register a foreign economic unit agency, four documents, certified at the place of issue

and legalized in the consular agencies of Ukraine, must be submitted, unless the international agreements of Ukraine provide otherwise:

- An application for registration of the agency
- An excerpt from the commercial register of the state in which the foreign economic unit has an officially registered office
- A statement from the banking institution in which the applicant has an officially open account
- Entitlement to fulfill the function of an agency, prepared according to the laws of the country in which the officially registered office of the foreign economic unit is located

The question most frequently asked is: What regulations govern the registration of joint enterprises created on the territory of Ukraine?

Well, the provisions in this regard are not yet final. According to the temporary regulations, units being registered are joint enterprises with the participation of foreign institutions, firms and management organs, branches of joint enterprises, institutions which have the status of a legal entity, and international associations. The basis for registration is that Ukrainian and foreign participants of a joint enterprise have legal status in accordance with the laws of their countries. Registration of joint enterprises and branches is conducted by the Economic Foreign Exchange Office of the Ukraine Ministry of Finance, after the State Commission on Foreign Economic Contacts in the Ukraine Council of Ministers determines that the creation of these joint enterprises is advisable. One copy of each of the documents required for registration should be submitted simultaneously to both institutions. The required documents are:

- A written application of one of the partners of the joint enterprise listing all of the partners, their legal addresses, the management organs of each of the partners (in case they are not all under the same ministry/department), and data on the person who will be the receiver of the registration certificate
- The consent of the applicable Executive Committee (e.g., for the city of Kiev) to create and locate the joint enterprise
- Notarized copies of the founding documents (agreements and statute). These cannot be xerox copies.
- Technical and economic justification for the creation of the joint enterprise confirming the effectiveness, including the foreign-exchange effectiveness, of the venture
- Documents confirming the registration of the foreign partner as a legal entity and his solvency (together with a certified translation of the text in Ukrainian or Russian)

The general principle is that the laws of the country on whose territory the joint enterprise is being established and is being registered apply.

In Ukraine there is still a plethora of regulations governing foreign cooperation, which is due partly to the

country's difficult economic and payments situation and partly to the defense of the economic interests of the state and economic units, and also to the support of entrepreneurship and competition, in view of the past monopolies in the area of foreign cooperation. Based on the law being discussed here, three types of export and import licenses are binding in Ukraine—general, single-use, and open—and three types of quotas—global, group, and individual. At the request of the Council of Ministers, a list of the goods covered by licenses and quotas is approved and a decision on the system of state control is made by the Supreme Council. Export and import permits are issued by the Ministry of Foreign Economic Cooperation. Information on the list of goods covered in the licensing and quota system as a rule should be announced in the Ukrainian mass media, and 60 days before the system is put into effect the information should be released to economic units. A system for regulating the turnover of goods is currently in effect and covers several dozen kinds of goods.

For Polish economic units this system is important in concluding concrete transactions, including barter. The Ukrainian law clearly states that cashless exchange of goods (barter), conducted by Ukrainian foreign economic cooperation organizations without the participation of banks, is subject to licensing by the Ministry of Foreign Economic Cooperation if this organization in the preceding financial year had an unfavorable balance of payments. Thus, if the balance was favorable, the Ministry has no authority to refuse to grant a permit.

There are bans on the import or export of protected national and historical treasures and cultural assets; the import or transit of goods detrimental to health and natural environment; the import of goods and services used to spread the ideology of war, racism and genocide; the export and import of goods causing conflict with industrial and intellectual property rights.

Ukrainian law permits the signing of bilateral or multilateral agreements with neighbor states (on the principle of reciprocity) on special systems of trade, e.g., border for which preferential terms may be applied.

Ukrainian law on foreign economic cooperation defines the tasks and rights of the National Bank of Ukraine; the principles of taxation in the implementation of foreign economic cooperation; the principles of the obligatory division of income in foreign currencies obtained by virtue of foreign cooperation; and the method for settling accounts and crediting economic units.

In this extensive subject matter, the details of which can be learned by reading the entire document, the following are worth noting:

- On Ukrainian territory an obligatory division of income in foreign currencies obtained from foreign cooperation into three parts is set up: for the foreign exchange fund of the economic units, the Ukraine State Foreign Exchange Fund, and the foreign exchange funds of the local Ukraine people's deputies.

councils. The norms of the division are set by the Supreme Council at the request of the Council of Ministers. The rules and procedures for the obligatory division of income in foreign currencies are established and approved by the National Bank of Ukraine (NBU).

- Ukrainian foreign economic cooperation units have the right to resell the foreign currencies to other states only on the basis of applicable civil-law agreements (contracts) concluded in accordance with Ukrainian law in which these states appear in the character of foreign-economic cooperation units. Laws of other countries do not apply in this case.
- Ukraine settles its accounts in foreign currencies with other countries in accordance with applicable agreements or understandings through the NBU or (at its instruction) through the Foreign Economic Cooperation Bank within the framework of the Ukraine State Foreign Exchange Fund.
- Credit servicing and accounts-settlement service for foreign economic cooperation units is implemented on Ukraine territory by the Ukraine Foreign Economic Cooperation Bank and authorized commercial banks and credit institutions, as well as by foreign and international banks registered in Ukraine.

The law referred to here is a step forward. Ukraine is opening the gates of cooperation ever wider. It is opening itself up to the world, to new principles and forms of cooperation used in international trade. The results of this "opening" in the past year are still small, but are already perceptible.

Not just several, but 950 economic organizations have already taken part in foreign economic cooperation. In a couple of years there will be tens of thousands of them, and maybe even more. It is estimated that the value of Ukrainian export in free foreign exchange already amounts to 3 billion rubles (about 25 percent more than in 1990). But in Ukrainian export, raw materials, materials for production, and general-use items predominate (85 percent of the turnovers). The economic potential is large. The object is to put it to work and use it effectively. At the moment, our neighbor is struggling with a crisis. He is implementing a program of extreme measures for stabilization and economic recovery. Trade with Poland is and can be helpful in these efforts and in the activation of foreign cooperation. Therefore, we invite the cooperation of our traditional Ukrainian partners, as well as those who are just beginning a business or intend to expand it.



# Wide-Ranging Interview With PSN Leader Roman

92BA064/A Bucharest BARRICADE in Romanian  
25 Feb - 1 Mar 92

[Interview in two installments with Petre Roman by Eduard Victor Gugu on 19 February 1992, place not given "Petre Roman, Frankly Speaking"—first paragraph is BARRICADE introduction]

[25 Feb pp 8-9]

[Text] On Wednesday 19 February 1992, Petre Roman was gracious enough to answer frankly and openly the sometimes embarrassing questions of our magazine's chief editor.

"I Would Not Want To Believe That the President Voted for Romania Mare"

"My Association With Iliescu Was Accidental"

[Gugu] There is some dispute about your participation in the events that took place on the afternoon of 21 and the evening of 22 December 1989. We would like to know what you were doing at that time.

[Roman] That is a question which I must admit I have not been asked so far. My appearance on the political scene has of course irritated and continues to irritate those who now belong to the three state powers, the administrative, legislative, and judicial. The surprise comes from my past, in which I never showed any political ambition. Insofar as today's government saw the light of day during the December 1989 Revolution, it is natural that you should ask what I was doing at that time. On the morning of the 21st, until about noon, I was at the Polytechnic Institute, from which I went together with the students to the former C.C. [Central Committee] Square, and from there to the University, where I stayed behind the barricade that was smashed at about 15 minutes after midnight on the 21st. As you can see, I was in the midst of the spontaneous manifestations which unquestionably signified a revolution.

[Gugu] Was your participation in the December events, as well as Iliescu's, part of an original plan to overthrow Ceausescu? Was there such a plan?

[Roman] I had no knowledge of any kind, about the existence of a possible plan, and my association with Iliescu was entirely accidental, insofar as on the morning of the 22nd, shortly after Ceausescu's flight, I expressed my exhortation for changes from the balcony of the former C.C., and after reading the declaration at Televiziune [Romanian Television corporation], as I was leaving, I met Iliescu who was just coming in. As you can see, there was no association at any time.

[Gugu] Who placed you on the priority list read by Iliescu at Televiziune? Who suggested you?

[Roman] Those of us who drafted that declaration came in along the same path without being recommended by anyone. It was clear that we, who wrote the declaration, were the ones entitled to sign it. No one recommended

me, and my presence on the list is solely due to the fact that I was there, that I participated in every moment, I might say, at one of the hot spots on the 22nd.

[Gugu] Today, two years after the December events, do you believe it was proper to conduct military operations against the so-called terrorists? Was it logical to deploy armored vehicles within a large city to fight against isolated snipers on rooftops?

[Roman] No, it was certainly not logical to deploy the armored vehicles, and especially the tanks. I think the light armored vehicles did play a specific role in protecting against sharpshooters. It is true that the use of heavy firepower against these snipers was inappropriate, but it is circumstantial that the army did not know how to work with kid gloves inside the city. It would have been more natural to use the tanks, machine guns, which I am convinced would have been more effective.

"Soviet Help Appeared Justified at That Time"

[Gugu] Is it true, as has been said, that you would have agreed to an intervention on the part of Soviet troops?

[Roman] I have already explained what I meant. At a certain point, when the military asked me to analyze the situation, the problem was that in street fighting the ratio has to be 40 soldiers to one isolated fighter with modern equipment. Therefore, if there had been 1,000 terrorists, there would have been a need for 40,000 soldiers, an enormous mass of men that is extremely dangerous to maneuver. There was a question of specialized troops, and particularly of special equipment, since we had all sorts of alarming information regarding the sophisticated equipment available to the unidentified snipers. Soviet help appeared naturally, justified at that time.

[Gugu] Did you consider asking for help from other powers as well?

[Roman] Of course, I believe we thought other powers might also be interested in helping us, in fact, we received a declaration from the French foreign minister, Dumas, which mentioned such help, but all things considered, the intervention would have been extremely complicated and could not have been controlled, coordinated, especially if it had been a direct intervention. Ultimately, the Gordian knot proved to be the elimination of that which these terrorists were defending, the continued existence of the Ceausescu regime. If the dictator disappeared, so would the meaning of their intervention.

[Gugu] Did you approve of the way the Ceausescu trial was conducted?

[Roman] You see, I started to consider that later, especially since I am not a jurist. I analyzed the trial. From the start, the defense, which was in fact a second prosecution, seemed improper. It would have been so much better and simpler for the defense to proceed in accordance with elementary court usage in order for the trial to project the greatest possible legitimacy. But in fact, we must be sensible, we must recognize and see the reality as



it was. Neither of the two dictators accepted the idea that they could be tried. The whole trial illustrated that because nothing was legitimate, nothing was admissible, no question was conventional, and consequently the trial naturally led to the sentence that you know. I repeat, it would have been better to respect all the strictures of court procedures, but that does not change the basic facts.

[Gugui] Did you approve of the outlawing of the Communist Party and its subsequent reinstatement?

[Roman] I approved the outlawing of the Communist Party, although I'll honestly tell you that my feeling was that this party was already an outlaw. What was the sense in discussing it after 22 December, after the proclamation I made? The idea of outlawing it through legal action did not seem to me to contribute anything further. The outlawing decree was signed by Iliescu, myself, and Mazilu, but the next day, when we submitted it for approval by the National Salvation Front Council (CFSN), several voices said that this act went beyond the first steps toward democratization, established by the proclamation of the 22nd, and that a reinstatement was necessary precisely in order not to force the democratic process, in order not to create a negative image. The vote to reinstate was unanimous. I did not have the feeling that the reinstatement was making the party legal again, but for some it meant exactly that.

[Gugui] Do you think that the events of 12 January 1990 contributed to Mazilu's removal from the CFSN?

[Roman] No. I've said it before and I'll say it to you: Mazilu did not leave as a result of the 12 January events. There is no direct connection, in any case. I know exactly what happened. From the moment the paper ROMANIA LIBERA began to expose Mazilu through all the connotations of his past, of his well-known associations, he lost his strength and his enthusiasm was nearly destroyed. I tried to lend him moral support, but I could not substitute other facts for the ones that had been exposed. I told him that if he did not feel guilty, he should continue the struggle, he should stay with us. He could have confirmed or disavowed the information, and if he had confirmed it, he could have explained the causes. I have no personal knowledge of any pressure exerted upon him. I know he told me that he could not continue under those conditions. Actually, his resignation did not come until later, on 26 January, at a time which leaves some questions unanswered, since on the 26th what was being prepared for the 28th was already known. I hope that Mazilu still remembers that on the day on which he decided to resign I spoke to him again to urge him not to leave.

[Gugui] On 7 January 1990 Shevardnadze came to Romania. During his meeting, were there also discussions about Romania's and Bessarabia's future in the context of relations with the USSR?

[Roman] To the best of my recollection, the discussion was friendly. Let us not forget that Shevardnadze was a democratic political personality, and that his thinking

was undoubtedly more open than the official position. What is certain is that at the time we discussed the easing of relations between Romania and the USSR. Not much was said about your question, but there was some mention of it and Shevardnadze did not appear reticent.

[Gugui] Did you have another separate meeting besides the joint, well-known one?

[Roman] No, at that time the meetings were joint. The usual meetings were between Iliescu, myself, and Mazilu or Celac.

#### "UDMR (Democratic Association of Hungarians in Romania) Is the Explainer of the Hungarian Government Policy

[Gugui] The Torgu Mures events showed the world the explosive conditions that exist between the Hungarian minority and the Romanian majority in Transylvania. What do you believe could be the future, final honest solution to this problem?

[Roman] Almost everyone believes that democracy constitutes the basis of a solution. That is what I also believed and that is how matters appeared to stand immediately following the meeting we had with the first Hungarian delegation led by Gyula Horn in January 1990. Except that democracy means one thing, which is that any opinion, action, and decision that is adopted remains standing as long as it is in the power, especially if it is part of the administrative program. Yet exactly after the revolution, during the process, there was an electoral campaign, although no new legislative seats and those who now govern that country conducted it with criticism and with honesty, but they showed an irredentist emphasis. The Mures events coincided with the end of the electoral campaign, and that time the only thing that mattered was frankness with respect to adopted political norms for, as a result of the revolution for them as a result of the revolution, frankness therefore also meant that we could argue about certain things. The Hungarian government's official line regarding Transylvania and the Hungarian minority with respect to the Romanian majority, which, clothed in democratic garb, could not avoid the political thrust which they clearly demonstrated. To a large extent this has led to stagnation, serious mistrust, and at times even stress in Hungarian-Romanian relations. Internally, the reflection of these characterizations through the party whose formation, internal Hungarian identity was shown that this party's first task in the range of Romanians of Hungarian origin was the explanation of the Hungarian government's position. The events in Romania have heightened our interest and concern in Romania as well. I have said that in Romania, all the elements of an old tradition of paternalism, which has never not be abused. If we take worse as a result of the present democratic we believe that the old paternalism is still dominant.

[Gugui] In my opinion, although I am a supporter of good interethnic relations and a fan of xenophobic campaigns, I believe that the Hungarian minority is

Hungarian minority had been located at the Romania-Hungary border, similar actions could also have been triggered here. Are you of the same opinion?

[Roman] We were afraid of this, afraid in the human sense of the word, not in the political meaning of the conflict. However, these hot spots remain, which do not seem to disappear. It would be so nice if they did.

**"How Are the Romanian People Responsible for What This Monster of a Ceausescu Has Left Behind?"**

[Gugus] Do you think that the constant reminder of a potential conflict during the dictatorial period was real or just simple speculation to satisfy some contemptible interests?

[Roman] It was not speculation in the general sense of the word. Starting with the hateful reality of the Communist Ceausescu dictatorship in Romania, we can see that it made a great deal of propaganda which certainly did not meaningfully denounce the abuses of the dictatorship, in particular with regard to the rights of minorities. It continued much more readily after the revolution because Romania had become a country with more freedom. Freedom to discuss, to move, freedom of association, freedom to say anything, freedom to ask for any sort of information, and unfortunately, this freedom turned into finger-pointing at Romania's outrages, which are in fact the outrages of communism, of Ceausescu's regime. This gave rise to the legend of Romania's hand-capped. How are the Romanian people responsible for what this monster of a Ceausescu has left behind? How are the Romanian people responsible for the fact that orphans were kept under horrible conditions? How are the Romanian people responsible for the existence of Copsa Mica? Find and read the foreign press. These things have become a sort of Romanian legend, which in reality is anti-Romanian.

[Gugus] You are right, but I would like to tie your answer into another speculation, namely the existence of a virtual antisemitism in Romania, which I for one do not believe exists, but which is currently greatly publicized by exaggerating the crimes committed in Romania against the Jewish people.

[Roman] The crimes were what they were, that is not what is important. Still, they were. But that does not reflect the existence of any antisemitism. In any case, it does not reflect the soul of the Romanian people, but provides an image which is readily exploited, and that is why we are faced with questions which we sometimes do not know how to answer any more.

**"The Romania Mare Party Is the Extreme Right in the Fascist Connotation"**

[Gugus] Then how do you explain the large readership enjoyed by the ROMANIA MARE magazine, a situation also recently disclosed by the first round of local elections?

[Roman] I repeat. Those who voted for that party did not do it out of allegiance to the nationalist and xenophobic

theories it voices, but from the belief, mistaken as it is, that the national Romanian sector does not receive the attention it deserves. The party of the same name represents the extreme right in the fascist connotation of the word. I remember an interesting incident of the World War II, involving the mayor of Vienna, who had been installed by Hitler. He was a committed anti-Semite, very active and vicious. He arrested Jews, confiscated their belongings, sent them to concentration camps, and so on. One day, someone close to him pointed out that other than Jews were among the victims. His answer was that only he decided who was a Jew and who was not. We are faced with the same experience today. Take the last issue (No. 85) of ROMANIA MARE. It contains forged—I repeat, forged—documents referring to Gelu Voican's birth. As it happens, Gelu has real papers, his official birth certificate (1937) and his baptism certificate. He comes from two native Romanian families. But that is not the problem. These people falsified documents in order to reach an end. In the document, "Orthodox" has been changed to "Mosaic," and the ethnic origin from "Romanian" to "Sephardic." They do not even have a modicum of culture, which does not surprise me, because we are dealing with primitive people, with brutes. But it was possible in the Romania of 1992 to behave as in 1950 in order to intimidate, to frighten. And when this kind of thing happens, and someone asks questions in the European Council or in meetings with democratic governments (American, French, Canadian), what would you answer?

[Gugus] I happen to have been part of the group of observers and journalists who participated in the ballot counting at Section 116, where you, and Magureanu, and Iliescu, and other public figures cast their votes. Along with some funny moments, such as the switching of ages between you and your wife, I also observed one fact, which is that the options for Romania Mare reached an alarming level. The country's president himself opted for this reactionary party.

[Roman] Is that true? I think that this party's attraction is similar to that reported in France for Le Pen's ultra-nationalist party. I find it difficult to believe that President Iliescu voted for Romania Mare. Better yet, I do not want to believe such a thing, even though, as I have already said on other occasions, he has willingly or not, given some indications that he relies on that network. That would be very sad. I still refuse to believe it. I'd rather not believe it, but I can tell you why people vote for Romania Mare. They do not vote out of anti-Semitic or anti-Hungarian beliefs, that is not the point; the point is that these people think that way, that they are concerned with the share of the patriotic factor in official policy. They consider that this share is too small, and that is something that can be discussed. Even I have been criticized by the West that I have overstressed that factor in my administration. By the same token, these publications. I do not even want to name them, for reasons that are obviously of an entirely different nature, show themselves to remain faithful to the Ceausescu regime and to communism. Of course I am their enemy, because I want

democracy. I want us to raise the country to the level of modern, civilized, developed countries, and that is something they do not want. They are interested in retaining their privileges, all their ability to oppress, all their ability to publicly express themselves with insults and to remain unpenalized for it. It is clear that we are political enemies. But I'm not referring to the electorate that supports them. Under the complicated conditions in which we live—Yugoslavia is crumbling, the USSR is unraveling—some people feel that the patriotic factor should be stronger. I would like to voice a few ideas to these voters, but I do not identify them, at least not all of them, with the baseness that is being published.

[Gugus] I was able to verify with the first round of votes, at two voting points—in Otopeni and at the section where you voted—that the information I received the day before, namely that the Army was ordered to vote with the NSF and the SRI with *Romania Mare*, was confirmed.

[Gugus] I am surprised, and even saddened by this. It is one thing for SRI's director to fully use the services of these filthy publications, but the work of the people in those services, who should have voted according to their conscience, is another. If he has ordered them to do it, it is another indication of the extent to which these matters are a real concern or obedience to a dictate.

[3 Mar pp 8-9]

[Text]

**"Our Mistake Was That We Did Not Hang Our Fist on the Table"**

**"Credulity Made Us Say That the Miners Had Not Even Called"**

[Gugus] The miners' demonstration of June 1990 was the result of a hard and unjust campaign conducted by the government against the intellectuals and the young. Did you agree to having them called? And if not, why didn't you make your position public?

[Roman] At the time, I publicly stated that no one had called them, but it is maybe out of excessive credulity or lack of political experience that we assumed the responsibility, saying that they had not been called. Actually, I should have assumed the responsibility for myself, for the responsible elements in my administration. That "we" did not call the miners because others had done it, is another matter. I said it then, but it was very complicated for anyone to believe me, because the whole story had been blown up. I also was disturbed by the pictures I saw at the university, some of them were even extreme. I can only say that I cannot be implicated in this matter. There are no reasons to say that I had any connection with the call to the miners. I share the responsibility for other problems: the failure to control the violence, as well as the inability and ineffectiveness of normal police actions with respect to what was happening. I did one thing, however. On 14 June I changed the minister of internal affairs and brought in a young man, a judge, who was definitely not associated with the interests of the

former regime, and whom I placed as minister of internal affairs at the age of 36. I did a democratic thing. This fact was not underlined at the time by the opposition press. Could Doru Viorel Ursu be suspected of being involved in any corrupt interests? He could not. He could withstand any investigation. He had already demonstrated a certain intelligence at the Sibiu trial. After that, a number of concrete reform actions in the democratic sense took place at the Ministry of Internal Affairs.

[Gugus] Nevertheless, this man, as minister of internal affairs, declared his relations with the *ROMANIA MARE* magazine. He awarded it a prize, praised it, and in return, they insult him today.

[Roman] In fact, it was not Doru Viorel Ursu who had these relations. Credulously, he accepted responsibility for them. Some of his subordinates, among the ministry generals connected with the old regime, have moved toward these relations, but I do not think that he, personally, did this. He assumed responsibility for the relations when he no longer had any choice: neither for the well-known prize he awarded, nor for *ROMANIA MARE* at the opening of the Police Academy academic year. But that's how things are.

[Gugus] Nevertheless, do you not believe that the miners were called by someone?

[Roman] As far as I know, I think that it was in fact a continuation of their reflex response from former interventions. The pictures shown on television caused some people to call them back to Bucharest, but I do not think the miners considered what they had to do in Bucharest. It would seem they came to support the results of the May election—at which time they could demonstrate more or less acceptably. An uncontrollable event was suddenly triggered, with the miners being driven: now to the headquarters of the PNT [National Peasant Party], now to those of the PNL [National Liberal Party], now to Ratiu's house, now to the university.

[Gugus] And now to our headquarters. Do you think that Televiziunea orchestrated the pictures?

[Roman] No, categorically not. They came in essentially in a state of fear; those who came into the studios were crazed. The attack on the studios was real. It no longer matters whether it was deliberately staged or not. The deed was scary in itself, and I can understand their behavior.

**"I Asked Parliament Not To Ratify the Treaty With the USSR"**

[Gugus] During the time you were prime minister, the government's foreign policy followed a twisted path, best represented by Romania's elected president signing a treaty with the former USSR, a treaty which covered none of the major controversies: Bessarabia, Bucovina, the Treasury, and Insula Serpilor. It seems you did not agree, and so I ask you why you did not publicly declare your opposition?

[Roman] I will tell you exactly the way things stood, so that it will not seem as if I was attempting to exonerate myself or to seek applause. I'll tell you openly. The political significance of the treaty had to effectively come from those who were responsible for it, which means from the Ministry of Foreign Affairs. My mistake was that I did not have with me a special counsel to advise me in such situations. I simply asked for clarification about the treaty's significance, and I was told that it is a treaty just like those signed with the other formerly communist countries as a result of the termination of the Warsaw Treaty. Everything appeared in order from that standpoint. We agreed to raise the issues you mentioned. There had been some progress regarding Bessarabia. I now understand that what we then accepted with the USSR about Bessarabia was exactly in order for us to sign the treaty. There were some not very important concessions so that we could sign the treaty. We agreed that we would raise those issues in direct discussions. This is the mandate that Iliescu took with him to Moscow. I was in Moscow only once, at the penultimate meeting of the Warsaw Treaty. When he returned, Iliescu told us that he raised the issue of the Treasury and Insula Serpilor, but not of Bessarabia, which he was told would be studied. Thus, nothing concrete. It was now becoming obvious that one or maybe two of the treaty's provisions could not be acceptable or accepted, and I then asked that this treaty not be ratified by Parliament. I do not want to take the credit, but I did succeed. The treaty never came in force, despite pressure from the Soviets. At the same time, I did what was needed in order to bring Bessarabia closer to Romania. I tried to find out whether the famous treaty article regarding the nonformation of hostile alliances implied that we could not orient ourselves toward NATO. I discussed it both with Woerner and with Baker, and they told me that, no, that they do not interpret the article in that way, since NATO is not a pact of aggression. That was the entire context.

#### "A Great Hope Based on Ruins"

[Gugus] Although the economic reform which you proposed represented a hope for Romania, its implementation proved to be contrary to the announced objectives, which has led to economically unimaginable results, as well as to you and your administration being qualified as neocommunists. What can you say about that?

[Roman] First of all, that the assessment is not correct. It is true that the reform saw more planning than implementation, but I do not agree that the results of the reform were poor. Given the great blows we received, the quality of our administration was good. CEMA disappeared, sources of raw materials and markets disappeared, convertibility in reactionary Arab countries disappeared, simply put, we had to deal with an extraordinary drought and were blessed with a much more severe financial tightness than we expected. Considering that we faced such a situation, no one has a right to say that the administration has led to disastrous results. On the contrary, it reduced as best it could the negative effects which could have been extremely serious in some sectors. What was bad was the implementation, as you correctly state. Here we must assess each one's share of the blame. Ours was in the inadequacy, ineffectiveness, and

weakness of some administrative instruments, as supporters of industry, and in the inadequacy, and even impossibility of explaining each step of the reform. But in this respect, we were met with a veritable neocommunist firepower, a formidable obstruction. The situation of December 1989 is being compared to the end of a war. This is unfortunately not true, because the people have not understood that at the time of the break, the country was in a disastrous condition, that it was producing hand over fist things which increasingly no one needed. The people's mentality was not a postwar one, when everyone lends a hand for reconstruction following an appalling destruction. It was the mentality of a great hope, which however was based on ruins. Its value can be regained, but the quality of the mentality was not that of France or Germany at the end of the war, when the people clearly knew that the war was responsible for all the destruction. In fact, we find ourselves in a similar situation. Don't misunderstand me: this is not an attempt to minimize the painful effects of the transition. In this situation, we did not have an opportunity to explain, to announce, but on the contrary, all the discussions, day after day, were based on concepts of ultracentralization, bureaucracy, planning. Why shouldn't we be criticized, when we were conducting a reform against all that had been? Our mistake was that we did not bang our fist on the table, aiming at the administration, and that we did not have recourse to means of mass information. Every day, television was giving only anti-reform examples. The evolution was slow, but did not quite move backwards. We certainly did not have the capability to explain then as I do now. I learned, with profound and personal effort, to address people in very precise terms. What did I know? I was a simple teacher, a man used to the rigor of ideas, of expression, a great lover of the Romanian language. I have always sought to express myself with well constructed language, but that is not the language of politics. Which does not mean that direct language is less beautiful, but that I learned later.

[Gugus] One of the most controversial collaborators in your administration was A. Severin. Don't you believe that too much confidence was placed in his competence to speed up the reform through fast privatization? He is now director of the National Privatization Agency, and the privatization itself is long overdue.

[Roman] As long as Severin worked on writing laws in the administration, I think he did a good job. The delay in their implementation is due to the parliamentarians. What he can be blamed for I think, is the inability to sustain the organizational effort. I also think he is showing the same weakness in leading the Agency, but he is young and has all the necessary resources to improve his abilities.

#### "IMF-Style Reform? I Would Gladly Find Another Solution"

[Gugus] Are you convinced that all the events mentioned in the previous questions have led to the lack of confidence that exists abroad regarding Romania's political and economic future, as demonstrated by the failure to issue credit and, from a political standpoint, to accept Romania among the secondary interest countries in East Europe?



[Roman] I would say that things are clearer in this respect. The lack of confidence was generated by two factors. One which concerns Romania's political image with all its confusion, and another very important one of enacting a number of measures to stimulate the reconstruction of industry with primarily foreign capital. But when people came to invest, they immediately realized that it was impossible to seriously finalize stable deals. They needed a stack of approvals, including those from the government and were confronted by the picture of political forces that appeared to perpetuate the old regime, and which did not propose anything, did not provide psychological encouragement. I would say that in order to justify mutual interests, which exist and which have nothing to do with the dangerous demagogues of "the foreigners are leaving our country," it is necessary to encourage them and to reinstate industry into a competition in which it cannot otherwise enter. It is absolutely certain that this revival cannot take place without a massive infusion of foreign capital.

[Gugui] The reform you initiated follows the path drawn by the International Monetary Fund, a path that has proven fatal for all East European and Third World countries that have followed it. Do you not believe that another solution than the IMF should be found?

[Roman] I would be glad to find another solution, but let us not forget that the IMF program was in fact conceived by us and accepted by them to obtain support for Romania's foreign balance of payments. If we had another possibility to obtain this support, we would not have called on the IMF, which indeed has a restrictive policy, and which often underscores certain problems. The negotiations were very difficult, and we often made some gains because we succeeded in providing an image of real change. The IMF thus represented a unique prospect. If we had also had the significant help of other formerly communist countries such as Czechoslovakia, Hungary, or Poland, the negative effects would undoubtedly have been more bearable. Except that these countries began their reform much earlier. While they were moving toward the liberalization of their society and economy, we were doing the opposite, becoming more and more constrained, more and more used by the dictatorship, and we arrived late on this scene, where some actors had been playing the lead for some time. That Romania could become a major character is something I have said long ago, and I say it now. Nevertheless, we have no choice: we must find the resources to go forward with the reform.

#### "Romania's Destiny Is Not in the East"

[Gugui] The political event of August 1991 in the USSR has changed the face of the world. For the first time, you had a fundamentally different position from President Iliescu's. What were your reasons for adopting that position? Do you believe that it is the major reason for the hidden conspiracy that has toppled your administration?

[Roman] For me, it is not a matter of reasons, but of conviction. I have always known from my education and learning that Romania's destiny lies in the community of civilized, developed Western countries, and not in the East. At that time, the East still represented the residue of

communism. But it was not a matter of reasons, but of conviction, and that is why I found it so easy to formulate that opinion, both for the government and for myself, about the coup. I am definitely convinced that there were those who were waiting for an overthrow in order to regain the support they had in 1945, with the goal of maintaining power structures right here, which they could have again controlled. I cannot assert that the president did it with this intention; this I am not in a position to say.

[Gugui] The miners' demonstration of September 1991 followed exactly the same scenario as the previous ones, except that it assumed the form of an obvious settling of accounts within the government. Since then, the disagreement between yourself and President Iliescu, already signaled by the press much earlier, became increasingly sharp, at times acquiring a disturbing harshness in the president's speeches. Is there such a conflict?

[Roman] I also find this harshness disturbing, but I am not surprised at the attempt to convert into a personal conflict what was a clear intention to openly examine political positions. Why? Because if it is personal it loses value in people's eyes. My conviction is that the majority of the people have understood that this is not a personal attack, but a political position.

[Gugui] You have now adopted an outspoken attitude against the old bureaucracy and Securitate. Why didn't you do this when you had the power to decide?

[Roman] The power to decide did not concern this problem in any case. What I did was to indicate that the attempts to restore certain networks of interest of the old regime are unacceptable. I did not make it public because I had the responsibility to govern. In my view, the only thing that I had to do was to say that if we are faced with a restoration of a communist regime, I will exercise my mandate to ask the country whether it approves. I might remind you that in the January report I did ask that question, and I said that it was time to hold elections.

[Gugui] It is being said more and more seriously that in the immediate future, before the presidential elections, President Iliescu will order that the parliamentary investigation of Roman administration activities be accelerated. Do you believe that this maneuver will definitely compromise your chances as a political figure?

[Roman] No. First of all because if they do it, it will be unconstitutional. And secondly, this investigation proves nothing more than our good intention to fully carry out the badly needed reform.

[Gugui] I thank you, Mr. Roman, for your graciousness in frankly answering some embarrassing questions, which persist in all the Romanian media, at a time when you have already reached high ratings in the speculations regarding your candidacy for president.



### Knin, Glina Views on Belgrade Demonstrations

V2B40641B Belgrade BIRBA in Serbo-Croatian  
9 Mar 92 p 1

[Article by B. Sulesa "Knin Is Responding to Glina"]

[Text] Knin—The government of the Serbian Republic Krajina (RSK) "in connection with the manipulation of the RSK police by the regime in Belgrade and their puppets in Krajina, and also in connection with the 450 Krajina police taken to Belgrade to protect the regime in power against the democratic opposition in the protest rally in Belgrade on 9 March, in yesterday's press release expressed the harshest protest about the 'Kninians' being put on the side of the incumbent regime in Serbia and against the legitimate right of the Serbian democratic opposition in a protest rally on 9 March to raise the issue of the accountability of the government in Serbia both for the situation in Serbia itself and also for the position in which the Serbian people as a whole have been put."

The press release, which after the nighttime meeting was signed by Risto Matkovic, first minister, on behalf of the government of the "Knin" convocation, goes on to say:

"The assessment is that there is no reason whatsoever for the RSK to be directly involved in political life in Serbia in any way whatsoever, and in particular that this cannot be done by means of force and arbitration through force. It goes on to express 'our protest in connection with abuse of some of the members of the Krajina MUP (Ministry of Internal Affairs), but it likewise judges that the intentions of those who take away a sizable number of police from the RSK, thereby weakening its defensive capability, when the RSK is threatened by a danger of new armed aggression from Croatia, are neither honorable nor patriotic. This is one of the things that demonstrates that the incumbent regime in Belgrade will stop at nothing to preserve its power."

The press release goes on to say that "the authorities in Serbia do not need police from the other Serbian lands."

In conclusion, the government of the RSK calls for the members of the Krajina MUP who went to Belgrade to return to Krajina and to be on the alert in case of Ustasha aggression and not to be taken in by any manipulation by anyone. Their presence in Belgrade "weakens us all together, and their presence in Krajina strengthens us where we need it most at the moment." For that reason, the government of the RSK also announced that if this appeal is not respected, it cannot assume responsibility for the behavior and action of some of the members of the Krajina MUP in Belgrade on 9 March.

This is at the same time the response of the "Knin" convocation of the government to the press release of the "Glina" convocation of the government of that same Serbian Republic Krajina, which met on Saturday, 7 March, in Knin, when Information Minister Dusan Ekmovic (in the Knin version, the information minister is Lazar Macura) expressed the view of his government as follows:

"That is precisely why we are sending members of our Ministry of Internal Affairs of Krajina to help keep order in Belgrade, because they are able in the streets of Belgrade to recognize unmistakably those who want the streams to flow with Serbian blood. The people of the RSK are offering full support to the legally elected authorities of the Republic of Serbia, and the call for violating authority is an attempt at a new deception of the Serbian people, which those who wish that people well must not be taken in by."

### Draskovic: Only Radicalism Can Save the Republic

V2B40644A Sarajevo ONLORODJENJE  
in Serbo-Croatian 8 Mar 92 p 4

[Interview with Vuk Draskovic, leader of the Serbian Renewal Movement by Jelena Kosanovic; place and date not given. "On Our Side: Flowers, on Their Side: Telescopic Rifles"]

[Text] The nervousness in advance of this 9 March, heated up over the last month by statements from representatives of almost all the political parties and associations in Serbia and indeed even outside it, some of it against some of it in support of the meeting, is growing. One of those who can answer the question of what will really happen in Serbia on Monday is certainly Vuk Draskovic, leader of the Serbian Renewal Movement (SPC), the party that along with the Democrats is organizing the commemorative protest meeting scheduled in Saint Sava Plaza.

[Kosanovic] What do you expect from 9 March? What kind of net political result could the SPC and Serbian opposition gain from this event?

[Draskovic] The reason why the net political result of any political option or political party is associated with a single move or a single date is the general nervous state that prevails in these parts. We are all of us put quite simply in a desperate position as individuals, as citizens, as peoples. Certain categories of reality that until yesterday were unthinkable like the categories war, "hunger," "scarcity," "national defeat," "street fighting," are being beaten into our heads and brain from morning to dark. Under these conditions, the desire for rapid and simple solutions is a natural reaction of people who are economically embittered, morally disoriented, deceived as members of a nationality and spiritually devastated. Over the former Yugoslavia, in some places more, in others less, there hovers the hope of the shipwreck victim that someone can do something overnight, that a life belt can fall from the sky, that everything will turn in the direction we desire, and that we will see the shore that will save us. That is why 9 March is being given the importance of a move, rather than the value of a process. Even if it were not for 9 March, Serbia faces a wave of a universal movement for radical change. This government, though still not aware of it, which is being kept alive artificially, is numbering its last months.

[Kosanovic] How justified is the fear of possible disorders and conflicts?

[Draskovic] Those who hold all the instruments of power in their hands, and yet use every situation unpleasant for themselves to spread general fear, are no different from conventional rulers. Sooner or later such people end up on the black pages of history. Those who are expert at bloodshed are speaking about bloodshed. The vice president of the incumbent party, an expert in the Marxist view of the world, says in public that marksmen could be stationed on high buildings during the demonstrations and could fire on us. If that happens, if the "early works" of this Marxist recur, we will at least know who put the sharpshooters there and who pulled the triggers.

[Kosanovic] The president of the incumbent party is threatening us with the army and the police and is laying claim to the JNA [Yugoslav People's Army] with unprecedented arrogance, turning it into the army of his party. Does this mean, for instance, that in future young Serbs who are not members of the SPS [Serbian Socialist Party] should not respond when called up?

[Draskovic] Fortunately, neither the people in the JNA, nor those in the police, are stupid, though the incumbent party persistently represents them as such. The Ministry of Internal Affairs is refusing to carry out its constitutional and legal obligations, acknowledging that it is incapable of protecting Belgrade from the alleged Ustaša terrorists who might turn up at the demonstrations. With that kind of intelligence and that kind of government institutions, how is Serbia going to protect the Serbs in the dramas against the Ustaši when it is making a capitulatory acknowledgment that it cannot protect even the citizens in the capital from the Ustaši? There are many examples of possible disorders being used to create hysteria. By these actions and statements, they merely indicate in advance, before the eyes of the entire domestic and international public, who will be to blame if anything had happens. We are constantly talking about candles and flowers, and the government about sharpshooters, terrorists, earthmovers, and tanks! The responsibility is theirs, not ours, and they cannot evade responsibility for even the slightest excess.

[Kosanovic] Aside from the hysteria spread by the news media and representatives of the incumbent party, there is also fear of your insistence that the demands that you have put are not subject to a time limit except those for replacing the editors in chief and managing editors of Radio-TV Belgrade, POLITIKA, VEČERNJE NOVOSTI. What does that specifically mean?

[Draskovic] When we say that certain demands are not subject to a time limit, that means that these are demands whose fulfillment objectively requires time, which means that we will not be standing on our feet until these demands are met, by contrast with those that are subject to a time limit.

[Kosanovic] The last session of the Serbian parliament furnished the opposition arguments to the effect that almost nothing can be achieved through parliamentary

struggle. Is the opportunity opening up for a more radical change of direction in the behavior of our entire Serbian opposition, not only in connection with 9 March?

[Draskovic] In Serbia, every thought that has not been certified by the incumbent party is radicalism. We are under attack even when in the National Assembly we seek respect for the operating procedure. The president of the National Assembly accuses the opposition of being rude and arrogant if it says before the eyes of a television audience of a million people that the deputies of the incumbent party, when speeches are limited to 10 minutes, have the right to speak as much as they like, but that deputies of the opposition are interrupted at the end of eight minutes. The multiparty system in Serbia, as the regime is mercilessly channeling and dictating it, is not only a negation of democracy, it is often a negation of even elementary intelligence. In that last extraordinary session of the Serbian parliament, there were several heavy charges leveled against the president of the republic and supported by irrefutable arguments. Some of those accusations even had the force of a call to render him accountable, not just an appeal that he submit his resignation. The public heard and saw it all. Given a minimum of political sophistication and a minimum of the statement's talent, one would say that the person criticized would at least think about the criticism. What happened, however, is something never before recorded in the otherwise rich history of political tyranny. The president of the republic, without refuting any of the 20 or so arguments which disqualified him for remaining on the political scene, replied that he has no intention of changing anything in what he does. When I saw that unforgettable scene of provincial authoritarianism, it seemed to me that the speaker at that moment was mistakenly, in the wrong place, but passionately, mistaking his idol in the "Nembov Trial."

[Kosanovic] Most of the polls indicate a drop in the popularity of your party. If that is so, is it not a product of the substantial turnabouts in your political views, which on the one hand are said to be betrayal of national interests and on the other arouse suspicion and are interpreted as a change in tactics aimed at achieving the possible?

[Draskovic] Fortunately for us, we have "lost popularity" with one segment of our followers, and this is being used and exaggerated in various polls. We have been left by those without whom it is easier and better for us. There are no polls, however, which show that citizens who until recently were not committed to any party are flocking to us, including followers of the incumbent party. They intentionally do not take or publish such polls.

In politically unstable times, changes in party membership and fluctuations in the ranks of party sympathizers are a normal thing. Almost 50 percent of our new members, for instance, voted for the Socialists in the last elections, and now they are the day. We are now being joined, discretely, of course, by a large number of members of the JNA and civil servants. We know a number of moves of the government in advance thanks to the broad

group of sympathizers we have where no one anticipates them. As for my political changes of direction, they are much smaller in amplitude than is being asserted. For a long time, we were fiercely satanized, both the party and myself, and falsely represented in the media, and now that the truth about us is nevertheless breaking through the wall of lies to some extent, one gets the impression that we have undergone radical change. Certain general developments, it is true, have changed us all, so that in that sense I have changed as well, certainly less than others. It is only the great historical trials we have gone through in the last year that puts everyone in his right place. It is true that I advocate a politics of the possible. That is not tactics at all, that is elementary political logic. Is not the politics of the possible all that is possible in politics?

[Kosanovic] How do you see Serbia's future political destiny—in the international and domestic context?

[Draskovic] With this kind of regime, Serbia has no prospects whatsoever to pull itself up from the economic, political and moral bottom. In the economy, we now see a process of rebohemization through the creation of so-called state enterprises, which are actually party enterprises, through the tax system, which is actually harassing private initiative through the problematical legislative process, through the disciplining of the trade unions through the slowing down of privatization. Agricultural experts say that the peasants will soon face a humiliating forced requisitioning, perhaps they will even be herded. General shortages are not far off. A 25-percent drop in industrial output is represented as a success—his figures are like those of Zimbabwe and San Tome and Principe. In terms of the nationality, we have been humiliated on every basis. The Serbian people in the Krajinas was deceived. The shroud of a socialist Yugoslavia is being pulled over Serbia and Montenegro. Only through radical changes, above all a change in the regime, does Serbia have great prospects of standing up once again as a democratic state. We are on the bottom at the moment (lies are trying to cover us with concrete, but we can also leap up from the bottom). I believe that that is what we soon will do.

[Kosanovic] Could the local elections make any essential change here?

[Draskovic] The incumbent party took power in a dishonorable way. Even right now they are defending themselves, saying that they did not practice any deception. The elections to the National Assembly were shameful. The absolute majority of Socialists there represents one-fourth of the population. We in the opposition made a mistake when we entered those elections at all without first having obtained equal treatment in the media, a longer election campaign, honest division of the property of the former League of Communists and Socialist Alliance of Working People, and amendment of the election law. In the local elections, which the incumbent party again wants to schedule suddenly, as from ambush, and to conduct to suit itself, we simply will not repeat mistakes of that kind. Put simply, Serbia must

part company with the incumbent party as soon as possible, both locally and generally.

[Kosanovic] What is your comment on the situation in Bosnia at the moment? Do you still believe in the possibility of a sovereign Bosnia and a peaceful settlement in that region?

[Draskovic] There is nowhere in the world with the good conditions, above all the good people, people who favor a peaceful community life of Christians and Muslims, as is the case in Bosnia-Herzegovina. It is tantamount to a crime against civilization to destroy something like that. In Bosnia-Herzegovina, however, passions have been raised to a white heat, mainly by importing "evil" from several quarters. Our so-called central republic has had and still has an opportunity to become an example of the painless movement of worlds in their rebirth, not a dump for all kinds of hatred, prejudice, deception, and violence from the space of the former Yugoslavia. I do not know whether trucks are hauling radioactive waste into Bosnia-Herzegovina, but I do know that spiritual poison is arriving via the media. The despicable and utterly groundless deception to the effect that the Serbs are a disruptive factor are as old as the disputes between the Serbs and Croats, and they have loomed heavily on Herzeg-Bosnia as well. That is the root of the troubles.

We must, it is true, be honest. The lie about the Serbs as a disruptive factor, the lie from the arsenal of racism, has been "hooked up" even by certain Serbs through their primitive behavior and chauvinism. Political adventurism and political insanity are not ethnic stereotypes, but in multinational environments they are the shortest road to interethnic conflict. At the same time the Muslim people, in the general process of satanization of nationalities, has itself been satanized and itself, thanks to its assault troops, has provided occasion for this. When the fire burns high, the cauldron is hell for everyone in it. The Devil, of course, is always alongside the cauldron, too, in it. The most recent events, it seems to me, and I would like to believe this, have not been dictated or led by hatred between Serbs and Muslims, but by fear on both their sides. How are the Serbs, and not only in Bosnia-Herzegovina, to create a climate in which no one fears them when they assert their ethnic demands and their views about resolving the crisis? How are the Muslims to create such a climate? We have to seek answers here—bridges. Some of the words and some of the ideas have been sharpened to the point that they have the strength of bombs, and there is only a step from words that are bombs to real bombs. The word "sovereignty" for example, in Bosnia-Herzegovina now is a bomb for the Serbs that is being dropped on them and from which they naturally wish to protect themselves. To demonstrate and prove that that word-bomb "sovereignty" does not signify that, if it really does not, and I personally believe that it does not, not a peaceful life, a road to consensus concerning all the issues of national collectivity, perhaps even a road to new communities of former Yugoslav states, a road to economic movement, is at this moment the only job of the Muslim people.

The Serbs face similar tasks of dispelling the Muslim fear of an expanded Serbia, which, as far as I know, none of the Serbs in Bosnia-Herzegovina, except the adventurists, has advocated in the past or now. Put most simply, when fire is threatened, the first thing to do is to remove gasoline and matches, everything done before that is postponed, and the sole effort is to stop the fire. Good people in Bosnia-Herzegovina have deserved at least that much from their leaders.

#### Activities of Kosovo 'Separatists' Examined

92BA0636C Belgrade NARODNA ARMIA  
in Serbo-Croatian 5 Mar 92 p 13

[Article by Milovan Milutinovic: "Will the Serbian Opposition Set Fire to Kosmet?"]

[Text] The extensive activity of the Albanian Alternative in Kosmet in recent months consisted of maintaining direct contacts with parties that have a vital interest in the further shattering of Yugoslavia. There were several meetings of leaders of the Alternative, above all the Democratic Alliance of Kosovo, with representatives of the Albanian Government and the Democratic Party of Albania, the VMRO [Internal Macedonian Revolutionary Organization] of Bulgaria, a party which is rallying Albanians in Macedonia, the Democratic Action Party of Kosovo, which not long ago merged with the Democratic Alliance of Kosovo, the Democratic Action Party of Sandzak and of Bosnia-Herzegovina (B-H), and the Croatian Democratic Community. The main content of the meetings, we learned from well-informed circles, lay in coordinating joint activities aimed at further destabilization of Serbia and at dismantling Yugoslavia in all its aspects.

#### The New Strategy of the Alternative

Within the framework of the Albanian Alternative, there has been an increasingly evident crystallization of two options on the international scene. One of them, the stronger of them, under the domination of the Democratic Alliance of Kosovo, is aimed at seeking support and aid from the United States, as the leading world power which is able to shape policy throughout the entire region where Albanians live. The other option, not quite as strong, but more extreme, is under the domination of the so-called Republic of Kosovo, that is, its government and Prime Minister Bujar Bukosi, who was previously a student in Germany and who was at one time recruited by the German intelligence service. Their orientation is aimed at seeking aid and support from Germany, as a leading economic and European power. Although certain differences and disagreements are evident, at least for the present they are being overcome by the alleged general national interests and the need for "peace in the house."

The Albanian expansionist strategy for complete unification of Albanians into one state has been pushed into the background by order of their benefactors. This was done because the separatism of ethnic minorities does

not suit the European and world public, because acceptance of such options would encourage many cases of separatism in other countries. The sharp warning from the U.S. Government that there could be no change of borders within Yugoslavia, especially by force, certainly contributed to this, and the Alternative has moved to build a new strategy.

Even now it is certain that the recent illegal visit Albanian Ambassador Kujtim Hysenaj to Pristina, and his conversation with representatives of the Albanians from Macedonia, headed by Nevzet Haljili, and Kosovo Albanians headed by Ibrahim Rugova, culminated in establishment of a strategy for the struggle of Albanians. Part of that strategy is to request support from international entities in order to set off in Macedonia, Serbia, and Montenegro those areas of those republics in which the Albanian nationality is in the majority. This presupposes planning activity of the Albanian Alternative within the framework of Yugoslavia and republic borders, which supposedly indicates resolution of the Albanian issues on the territorial principle.

The increasingly pronounced division and confrontation of the Serbian and Montenegrin population into newcomers and old settlers is also having a constructive influence on the activity of the Alternative; the fight now is who will take the more important portfolios and key positions in the direction of certain public affairs? Another important stumbling block and source of divisiveness is the conflict in views between supporters of the incumbent party and the opposition, in which the struggle for power and domination over the other side is being felt more and more at the center of their involvement.

#### A Military Staff Has Also Been Formed

A staff for military affairs has also been recently formed in the government of the "Republic of Kosovo", at certain points, it would take over leadership of the armed rebellion. For the present, we know reliably that it is headed by a top retired officer of the JNA [Yugoslav People's Army] who is an Albanian, and that he has recently been joined by certain officers who deserted from the JNA. They have worked out plans of action for the larger towns and have organized military staffs, and it is not difficult to foresee what they will be used for.

The work of what might be called the news center of the Albanian Alternative, which is headed by Ruzdi Demiri and a group of former newsmen of RILINDJA, has also been stepped up. Their purpose is to prepare the appropriate reports both for their own population and for the international public. Together with the staff for military affairs, a possible action was developed for taking over the TV and radio stations and preparing appropriate broadcasting for such an occasion.

There is continuous monitoring of the deployment of units of the Serbian MUP [Ministry of Internal Affairs], their strength and the way vital facilities are being fortified, as well as opportunities for conducting actions to take over police stations, especially in the smaller



towns. Likewise, numerous activists are being used to continually monitor the movement of units of the JNA from Macedonia. According to the assessments of the Alternative, the greatest danger threatens from the stationing of strong air forces at the airfield in Pristina, which is why it is another main target of observation.

Circles close to the Alternative estimate that the rally in Belgrade might be extended to 10 March. Then a third to a half of the policemen from Kcemet would be involved, and numerous facilities in the province would be left unprotected. If the conflict between the government and opposition began with bloodshed, this would be a kind of signal for action of the Albanian national separatists, who would try to establish the "Republic of Kosovo."

Evaluating the possibility of that kind of development of the situation, the Alternative took action to evaluate the status of JNA units, their strength and readiness to carry out their missions, especially after reports received concerning the ever greater number of Muslims and Macedonians leaving the Army. Efforts are being made through certain channels to obtain information on the security of warehouses and storage facilities and the possibility of taking them with the smallest possible losses.

#### **Paramilitary Units in Bosnia-Herzegovina**

92BA0637A Belgrade POLITIKA in Serbo-Croatian  
4 Mar 92 p 9

[Article by Radovan Pavlovic: "50,000 Members of the Croatian Democratic Community and Party of Democratic Action Under Arms"—first paragraph is POLITIKA introduction]

[Text] People have gone furthest in arming along party lines in western Herzegovina, the SDA [Party of Democratic Action] detachments are receiving "attractive" names—the "Green Berets," the "Flying Friends," the "Curved Dagger Division."

"Northern Ireland would resemble a summer resort in comparison with Bosnia-Herzegovina." This warning was uttered the day before yesterday by Dr. Radovan Karadzic, the president of the SDS [Serbian Democratic Party] of Bosnia-Herzegovina, after the dramatic events in Sarajevo's Bascarsija and then throughout Bosnia. Other rational people also warned even earlier that the "Bosnian pot" was boiling explosively, and that just a spark would be enough for the "lid" to fly off.

The atmosphere was full of expectation, anxiety, hunger, privation, and political and military regrouping. National suspicion passed the point of heated passions a long time ago, and, as General Milan Aksentijevic stated recently, "The people have so many weapons that the slightest conflict would spread like wildfire to the entire Republic."

According to the available sources, a large amount of weapons is in the hands of the most extreme members of the Bosnia-Herzegovina parties—the HDZ [Croatian Democratic Community] and the SDA. It is reliably

known that about 50,000 members of the HDZ and the SDA are armed with automatic rifles and rifles with sniper scopes, and certain party units have bazookas and mortars of all calibers in their arsenals.

#### **Arsenal in the Neretva Valley**

People have gone furthest in arming along party lines in western Herzegovina, where Croats constitute a majority of the population. The commander of the Uzice Corps, General Milan Torbica, recently stated the fact that about 16,000 people were included in paramilitary units (the ZNG [National Guard Corps] and the HOS [Croatian Armed Forces]).

In the Neretva valley, the Croatian extremists possess mortars, cannons of various calibers, antiaircraft artillery, the "Ambrust," "Maljutka," "Osa," and "Zolja" antiarmor missiles... In addition to the armed extremist members of the HDZ in Bosnia-Herzegovina, a prominent role is played by the members of the Croatian Rights Party [HSP], who are openly advocating the creation of an Independent State of Croatia [NDH]. Well-informed sources claim that the members of the HDZ and HSP are organized by towns into combat groups and sabotage troops, and even Ustasa companies in some towns.

One can say that the decision on the paramilitary organization and arming of the Muslim nationalists dates from the beginning of last June, when a meeting of the SDA Deputies' Club was held in Sarajevo. Alija Izetbegovic then stated that the Muslim people were facing a crossroads and that Yugoslavia would fall apart, and he commented that a sovereign Bosnia-Herzegovina should be preserved and defended at any cost.

At that meeting, a brochure entitled "Prayer for the Truth" was distributed to those present, which attacked and blamed the Serbian people for the situation in Yugoslavia. Along with the brochure, the deputies were given the text of the political platform of the Muslim National Council, which emphasized that it would work for the creation of a Muslim state and the formation of Muslim armed forces, with the concluding message: "Brother Muslims, you can have different opinions about all other issues except the issue of our state."

#### **Several Headquarters**

On the basis of these tasks, the SDA leaders soon formed military crisis headquarters throughout Bosnia-Herzegovina, in addition to political ones. In some opstinas and regions, the chiefs of these headquarters, intelligence units, and the commanders of special units were also designated. Reliable sources state that in some towns paramilitary units of armed Muslim nationalists were created under the names "Curved Dagger Division," "Huskins Division," and "Smail Aga Cengic."

In one village near Brcko, militant SDA members formed a unit and called it the "First Military Muslim Detachment in the Islamic Republic of Bosnia-Herzegovina," and a secret organization of Islamic fundamentalists called "Red Fez" is operating in Bosanski Novi. In the



Zvornik area, a battalion of armed Muslim extremists has been created, and in Sarajevo the "Muslim Youth Alliance" is forming saboteur and terrorist groups.

The SDA is also doing considerable work on creating its own special units, the core of which consists of former members of the JNA [Yugoslav People's Army], people trained in the Croatian Ministry of Internal Affairs, emigrants, and volunteers. The party units are given special names like "Liquidators," "Flying Friends," and "Green Berets."

Perhaps it is an exaggeration to say that the extremist nationalists are working on the creation of a Bosnian army, but reliable sources claim that some steps have already been taken to realize this idea in the area of Visegrad, Foca, and Gorazd. Nevertheless, a certain disagreement has also arisen among the initiators of the idea of a Bosnian army. Some of them are seeking to form a Bosnian army, whereas others want the Muslim armed forces to be called a "Muslim liberation army."

#### Serbian Volunteers for the JNA

Where are the Serbs in such a situation? During the past year, because of the justified fear that the Serbs could experience the fate of their compatriots in Croatia, paramilitary units also began to be formed among the Serbian population. The Serbs have thus warded off their Muslim and Croatian neighbors with the "Karadjordje" and "Stojan Kovacevic" detachments and other units.

One can say with certainty, however, that now the paramilitary organization of the Serbian people has almost stopped. Faith in the JNA has been restored, and Serbs are responding unanimously to the calls for mobilization, so that all of the volunteer units have now been put under the command of the JNA.

The events in Sarajevo have shown that the Serbs are capable of organizing quickly and are readily awaiting any surprises. "The Serbian people are quite capable of protecting themselves throughout Bosnia-Herzegovina," to quote in conclusion Radovan Karadzic's statement the day before yesterday.

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